CREDIT
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Protect Profits in 1935 with Credit Interchange

CONTENTS FOR FEBRUARY, 1935

Looking ahead

Next month we will carry a follow-up article in connection with the piece presented by E. W. Hillman in the current issue on the problem of selling c. o. d. to customers who have requested sales on a credit basis. That this is an important problem is evidenced by the numerous contributions we have had from readers on this subject in recent months. As a supplement to the current article, they will be presented in the form of a symposium in March.

An important opus on balance sheet factors will be present in March, written by the President of the New York State Society of Certified Public Accountants.

The great Bonneville power project in the Pacific Northwest will be discussed by the Financial Editor of the Portland Oregonian, Mr. Leon Baketel. He is the third in the series of authors from the Financial Departments of our leading dailies to appear in our pages. Others will follow in subsequent issues.

Cover drawn by WAYN SMITH

CREDIT and FINANCIAL MANAGEMENT

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Stream-line our laws!

The number of laws, and regulations having the force of laws, which have been enacted during the depression years, reaches an unbelievable figure. Some patient, industrious man may some day calculate the length of time it would require for the average citizen to read the laws regulating his life and his property. Despite his longevity Methuselah, had he been born with the ability to read from his first day of life, would have been pressed to complete the task that confronts one who would dare to tackle it today.

Much of the legislation of recent years has been emergency legislation. A great deal of it was—and still is—unsound and uneconomic legislation, possible of passage only when a nation is in a disturbed state of mind. The human race still grasps for straws when drowning. Panaceas and palliatives appeal; fundamentals are forgotten.

This Congress, or some Congress, and this year's state legislatures, or some year's state legislatures, would render a real service by devoting their time to the repeal, rather than the enactment, of unsound and non-essential legislation.

Perhaps it is time that our citizens begin writing planks in the platforms of some of our national and state representatives and senators. The first plank should be a demand for the repeal of all archaic, emergency and uneconomic laws. Archaic legislation benefits no one except the printer of legal volumes. Emergency legislation only breeds further uneconomic legislation in a desperate attempt to offset the harm that has been experienced from uneconomic laws.

If all these laws were repealed there would still be the tremendous task of codification and simplification of necessary legislation. Even essential laws are practically without an index. If a business institution should fail to do its correspondence filing for a century or more you can readily understand how hopelessly inefficient it would be.

When we begin to appraise our representatives on the basis of their ability to eliminate as well as legislate, we will have taken a real step forward. Perhaps it is asking too much, but let us hope that in this day of crusaders there will be at least one battalion crusading for the elimination of archaic, emergency and uneconomic legislation.

Henry H. Heimann

Executive Manager, N.A.C.M.

Beat the business crook!

Fire losses in the United States total many millions of dollars annually. It is estimated that commercial crooks take a toll from business even greater than our entire fire losses.

Prosecutions for many of these frauds are being pushed, but after all is that not like putting a padlock on the door after the horse is stolen. This article presents some thoughts on how to beat the crook before we get him to the criminal court.

There is one kind of business activity which seems to prosper whether business is good or bad. Whether prices rise or fall, are high or low, or whether sales volume is up or down, makes no difference—it prospers just the same. It does not reckon with business cycles. That activity is Commercial Fraud.

Statistics have been prepared to show that the commercial fraud losses of the country equal or exceed the total value of some of the major crops of the country. Much concern is registered about fire losses; yet, in so far as they relate strictly to business organizations, fire losses are without question materially less than fraud losses.

Why should this loss be hung on business? Why should honest, reputable business men, principally retailers, be confronted with the competition which arises from the disposal of merchandise secured through fraud which has not cost the promoters one penny but is thrown on the market in competition with the honest merchant? To what extent has this kind of competition resulted in the insolvency of honest business men and in that way added still more to the total business losses of the country?

Much has been said about it and a great deal has been done in the prosecution of fraud but that is not enough. Prosecution actively by the Fraud Prevention Department of the National Association of Credit Men has helped the situation. It often effects substantial recoveries for creditors. These convictions take a great many promoters out of their chosen field of activity. They have a salutary effect on the individual contemplating fraud. Despite all that, however, there is ample evidence to prove that the real savings and reductions in fraud losses will come about when attention is centered on prevention rather than prosecution. It is the old story of locking the stable before, rather than after, the horse is stolen.

The frequency with which frauds are perpetrated in certain sections of the country and the similarity of the schemes used justify the conclusion that the majority of them are deliberately planned and possibly that certain individuals, working alone or in crews, are making it a regular business to promote one fraud after another.

Would it not be profitable to take a look at commercial fraud from the point of the promoter—discover if possible how he looks upon his activities, how he promotes his schemes? Possibly that might give a better insight into how business might protect itself against him.

Fraud can be roughly classified into two varieties: Non-professional, and professional.

Non-professional fraud is that which apparently comes about largely through circumstances: The individual who finds his business operating at a loss, sees no bright prospects for the future, and not having a particularly strict moral code resorts to fraud as the way out of his dilemma. This type of promoter doubtless creates substantial losses during the course of a year's time. Evidence indicates, however, that such losses are nominal compared with those created by the professional promoter. Since the same general principles apply in either instance, it is just as well to pass the amateur in the game and go on to the professional promoter. An investigation of his activities from the point of promoting the scheme should be extremely interesting.

Generally the professional fraud promoter operates on one of three basic plans with minor variations.

He buys out a well known, established business, acquires the name, and then before the change in ownership is discovered purchases a large quantity of merchandise most of which he hopes to be able to conceal and to escape payment therefor by composition settlement or through bankruptcy, or in some other manner which will not cause too close an inquiry into his activity. This is a very crude method and is only rarely used nowadays.

Another plan, quite common in the past but not so frequently noted now, has been that of using a name almost identical with that of a well-established business, purchasing merchandise under that name, having it shipped to a different address—generally a vacant store building—where it goes in the front door, out the back, and disappears. The promoter follows the merchandise. Measured from the point of loss, this is a piker's game.

The third and really dangerous plan in so far as creditors are concerned is that one where the promoter has deliberately planned in advance to devote a certain period of time, whether one year or three years, to the promotion of

his scheme. He buys out an established business or begins a business himself, establishes a good business record, and after a period of time has elapsed puts on a buying spree, accumulates a supply of merchandise, and then takes the bankruptcy route as the concluding step of his program.

Of these three plans, the first two have been reduced, apparently, in number lately. It is easy to understand why. They are both very hazardous, must be put through quickly, and any little mishap may destroy the program. They are so obvious as to almost assure conviction in the event creditors take action and can locate the promoter who has made himself a fugitive from justice.

The most casual investigation through reliable sources would disclose the activity. Therefore, while it may be unkind, it is, nevertheless, proper to say that little sympathy should attach to those who are defrauded by such schemes. The credit manager who makes it a policy to depend upon his own investigation through proper sources and then exercises his own judgment will rarely if ever be taken in by them.

The third plan is the one which is responsible for most of present-day fraud losses. It is not the scheme of the amateur or the ignorant individual. The methods used are inescapable evidence that the promoter is shrewd, intelligent, thoroughly acquainted with present-day business methods and conditions, and is out to make a certain definite sum of money out of the venture. He is not particularly concerned about detection or conviction. That is merely a part of the gamble. If he is obliged to spend a year or two in the penitentiary, he is merely working that much additional time for a certain stipulated compensation paid to him by creditors in advance. He is not concerned about his reputation. He is either operating under an assumed name, or can manufacture a new name immediately after his scheme is completed. He thinks only in terms of the dollars he makes—to him the profit from his investment and time. It is to be doubted whether the majority of these promoters look upon their activities as dishonest. To them it is just a way of accumulating an estate against old age.

The plan this promoter uses is simplicity itself. Apparently that is its greatest advantage. The promoter does not need to depend upon a false financial statement. Many instances have been noted where the statement was to all appearances entirely accurate. By establishing a reputation for himself over a period of a year or more, and supporting that with the financial statement, he establishes a good rating and has a certain number of choice hand picked references always available and these references when canvassed state their experience has been satisfactory—and that, like his financial statement, is true. All of the history of his business is apparently clear and open to inspection. On that background he proceeds to buy the supply of merchandise he needs to make his scheme profitable. How does he do it?

It is obvious that he depends upon his statement, his rating, and references. His purchases are made in amounts which he feels will be shipped without careful investigation, as witness—a recent case where there were 460 creditors with an average indebtedness of $75.

After whatever quantity of merchandise the promoter desires has been accumulated, he is ready for the next step in his program. Just as it is obvious that he got the merchandise because the right kind of investigation and the proper kind of credit service were not utilized, so, too, it is obvious that he concludes his scheme by taking advantage of another known weakness in present-day credit practice.

His buying scheme has carried over perhaps ninety or one hundred and twenty days. When his buying scheme started, he stopped paying his bills. None of the merchandise purchased during this buying period has been paid for. An investigation at the end of the time would disclose that most of it had disappeared, had been shipped to parts unknown, either to be recovered by the promoter or by a confederate at some place of business where the next promotion scheme was to be carried on.

It would seem that the promoter should now be ready to file a petition in bankruptcy and conclude his activities. But he isn't quite so crude as that. That might cause trouble. He knows that certain other developments must take place, so he follows a slightly different plan. For a period of ninety days he plays possum. Nothing much is heard of him. He is at his place of business, operating with a small stock, and offering such explanations as he can for his inability to pay. When the number of letters and callers he receives indicates that the majority of claims against him have found their way into the hands of collection organizations of one variety or another, he is ready for his final step.

Included in the list of creditors will be found three—perhaps arranged for in advance—who will be good enough to file a petition in bankruptcy against him. That is done, and the regular proceedings follow. The attorney for the debtor and the trustee may be discovered to be occupying offices next door to one another. That eases his path immensely. Few of the creditors are interested in any large amount. The majority of the claims have been placed in the hands of third parties. When the petition in bankruptcy is filed, most of these claims will probably be filed directly with the referee.

No particular attention is paid to the bankruptcy proceedings. The estate is eventually liquidated. Creditors are advised there were only sufficient assets to pay costs; possibly preferred creditors receive a small dividend—and the estate is closed. And the fraud scheme is complete with the exception of turning the merchandise into cash in whatever manner the promoter may select.

Sometimes as much as a year after the scheme is over some of the creditors indicate a belief that fraud was involved in the deal, but by that time the whole matter is a dead issue. The promoter has left for parts unknown, has quite likely appropriated another name and is already engaged in carrying on another venture along the same identical lines.

This outline of the way fraud is promoted should of itself clearly indicate how it can be defeated. It is patently obvious that one essential requirement to its defeat is proper (*Cont. on page* 41)

John Burns, famous British labor leader, once visited an institution for the mentally deficient and was amazed to find so few guards on duty. "What's going to happen if these maniacs get together and start something?" he asked the doctor in charge. "Don't worry," the doctor answered, "lunatics never cooperate."

The legislative outlook

A special dispatch from Washington, D. C.,

by HENRY D. RALPH,
Political Correspondent

A radically minded Congress, pledged to support the New Deal, and taking office immediately after its election, under the "lame duck" amendment to the Constitution, would involve decided threats to business stability and confidence were it not that President Roosevelt will very largely dominate most important legislation.

The feeling of great emergency, under stress of which laws were passed without much consideration, is not dominating this Congress as it did the last, and there is more desire to listen to the views of business men and to work with business for recovery. Nevertheless the New Deal objectives of reform and the more abundant life remain in the foreground.

The chief task of Congress is to enact in more permanent form the emergency legislation which expires soon, to correct mistakes and deficiencies discovered in the program so far, and generally to consolidate the New Deal's position. In doing so, Congress will exercise much greater care in delegating authority to the President, and will lay down rather detailed and specific policies and rules for administration of the new laws, though the general nature of them will be in accordance with the wishes of the Administration.

The President's message to Congress on the state of the Union was not very revealing of the course of legislative action, and as in the past two years plans will be worked out one at a time and submitted to Congress serially. In this way the President may be expected to keep Congress so busy on Administration projects that individual members will have little opportunity to press their pet schemes for reform.

The bonus was the single big exception to this situation. Veterans' organizations had pledged so many members to vote for immediate cash payment of adjusted service certificates whether through inflation of the currency or otherwise, that an early vote was inevitable, and the President, firmly opposed to bonus payment at this time, was hard pressed to find a way to defeat the bill or evolve a satisfactory compromise.

Other inflationary measures were introduced by the dozen at the opening of Congress but with little chance of their enactment. An inflationist bloc was in process of formation, but without much prospect of harmony as it included groups with such diverse objectives as aiding silver producers, raising farm prices, relieving debtors, paying off depositors in closed banks, paying the veterans' bonus, and pensioning the aged.

All monetary measures were held in abeyance pending the decision by the Supreme Court on the validity of abrogation of the gold clause in both public and private debt contracts. The Administration definitely opposes further changes in the currency except such adjustments as might be required by international stabilization, an objective which seems somewhat nearer in spite of complete silence in all official quarters.

A decidedly inflationary factor, however, is the budget for the 1936 fiscal year which Mr. Roosevelt submitted to Congress calling for regular and emergency expenditures totaling $8,500,000,000, involving a deficit of $4,500,000,000, and increasing the public debt to $34,239,000,000. The danger is that as the national debt rises there is a weakening of confidence, interest rates on government securities rise, Treasury borrowing becomes more difficult, and there is temptation and pressure to issue paper currency to pay expenses. Such possibilities are scouted by the President, however, and he says the budget is well within the sound credit of the country and does not call for inflation.

The Treasury will be required to borrow some $6,500,000,000 in the next 18 months, in addition to refunding operations. This will doubtless follow orthodox lines, and while a portion will consist of long-term bonds, the bulk will be short-term Treasury bills which will be absorbed by the banks.

The first appropriation bills handled in the House indicated that Congress will follow closely the recommendations of the budget, which provide restoration of government salaries to the 1932 level and general increases for expanding the work of most of the federal bureaus and commissions.

In spite of the increased deficit, no new tax legislation is scheduled for consideration at this session of Congress except a resolution to continue the group of special excise taxes which otherwise would terminate in June. This group of "nuisance" taxes, which bring in a total of more than $400,000,000 annually, were originally enacted for two years in 1932, but were extended until 1935 by the National industrial recovery act.

Only the bank check tax will not be renewed. Under a special provision of the 1934 revenue act this tax terminated January 1, 1935, and while the Administration would like to continue this tax for the more than $40,000,000 it yields annually, there is so much opposition to it that no attempt will be made to reenact it.

The budget calls for continuation of the postage rate of three cents per ounce on first class mail, a recommendation which will be adopted by Congress.

Of much concern to business is the $4,000,000,000 public works-unemployment relief program which the Administration proposed to Congress. With this sum the President will undertake a public works program on a scale larger than ever before attempted with the object of putting to work all employable people on the relief rolls, thereby ending direct relief and stimulating heavy

industries. The work will be done directly by the government or by states, wages paid will be less than union or local prevailing scales but higher than direct relief payments, and contractors will not be employed.

In spite of the President's reassurances, business circles are apprehensive that many of the contemplated projects, such as rural electrification and low-cost housing, will compete ruinously with private enterprise; that the contracting industry may be brought to a stand-still; that the wages paid and the effort exacted on the works projects will be such as to lure workers away from private employers; that the government may set up its own plants to make and fabricate materials for the public works instead of buying them in the open market.

The future of the National Recovery Administration is one of the current problems of greatest interest to business, but the President gave no hint in his annual message and there is no definite body of thought on the subject discernible in Congress. Some time later the President will make recommendations, after the National Industrial Recovery Board, the National Emergency Council, and other advisory groups have reached some conclusions. Meanwhile the N.I.R.B. continued a series of policy hearings to enable it to lay down a definite and consistent course of action in administering codes and also for the basis of future legislation.

The first and most important was on price control devices, and from the evidence presented and the questions asked by the Board members it appeared that the Board would be hostile to any code provision, no matter how styled, which unduly raises prices or is shown to fix prices rigidly. On the other hand the Board will approve stop-loss provisions, such as those in many retail codes, which prevent deep-cut loss leaders but which do not require a high mark-up and which have not tended to uniformity of prices.

Production control, particularly in the natural resource industries, will meet with favor, as will cost accounting systems which are in accordance with recognized principles and which have proved workable provided they do not require inclusion of arbitrary charges nor result in uniformity of costs and prices. Emergency "floor prices" will also be approved in unusual circumstances, but only for short periods and only where destructive price cutting is being practiced. Spokesmen for buyers, such as consumer group. and purchasing agents, protested so vigorously and so tellingly against various code devices which have increased prices and made them uniform that the N.I.R.B. unquestionably will take steps to restore at least some measure of price competition in such industries, a move which will be applauded by Congress.

On the other hand, representatives of manufacturing industries were practically unanimous in defending the open price filing system and in asking authority to require a waiting period between filing and the effective date of a price schedule, so that the Board is faced with the problem of retaining the desirable features of open price filing while removing possibilities of its abuse.

Shoemaker in the "Chicago Daily News"

Not only the experience of the N.I.R.B., but some important Supreme Court decisions which are expected soon will guide Congress in drafting legislation to take the place of the National Recovery Act which expires June 16. The general expectation is that there will be some provision for the formation of codes by industry groups clearly operating in interstate commerce but with close government supervision to prevent monopolistic practices. Lengthy hearings before Congressional committees are in prospect on this subject.

The labor policy of the Administration, which has been a source of concern to business men, has not been clarified by recent events. Labor groups desire the collective bargaining language of section 7-a of the recovery act made permanent legislation without changes, as current interpretation is that this means that the union winning a plant election speaks for all employees, and they also want a measure similar to the Wagner labor disputes bill which ran into a deadlock last session. Employers seek to have collective bargaining legislation stipulate that minority employee groups may have proportional representation in works councils, so a long and unsettling controversy is in prospect.

The 30-hour week bill is being pushed by organized labor and fought by both the Administration and representatives of manufacturers, investors and consumers. The White House undoubtedly will be able to prevent passage of the bill although this may involve some form of compromise which would require shortening of work hours by administrative action in any industry where it could be shown that this would not be ruinous.

Business credit is a subject which was much discussed in the last session of Congress and will be again this spring. Timeliness is given by the study of business credit in the Chicago Federal Reserve district made for the Treasury by Dr. Jacob Viner which showed a substantial unsatisfied demand for loans on the part of solvent borrowers, particularly for working capital.

In large part this was found to be due to the policy of banks, frequently under the spur of bank examiners, not to make any non-collateral loans except for self-liquidating purposes and only for short terms.

As a result of this, federal bank examiners were instructed to take a more liberal view toward sound working capital loans, and the Reconstruction Finance Corporation reviewed its regulations and practices with the object of being as lenient as the law permits in making direct loans to industry, and also adopted the policy of approving loans to refinance existing indebtedness.

Implied in the Viner report was the need for some federal agency, either the RFC or a new body, to establish a system of business credit institutions to make direct loans to industry for intermediate-term periods. The Viner report found that commercial banks cannot well undertake much of this type of financing and retain sufficient liquidity, and that smaller business establishments cannot obtain the needed capital through flotation of long-term obligations in the securities markets. Consideration of this matter may be expected in Congress this spring.

There will be additional legislation on home mortgage credit. The borrowing authority of the Home Owners Loan Corporation will be (*Cont. on p.* 36)

Diplomatic use of c.o.d. and cash-in-advance terms frequently can save profitable orders which might otherwise be declined through lack of credit data

By E. W. HILLMAN

Treasurer, Federal Glass Co., Columbus, Ohio.

The Credit Executive is to be classed as a business statesman and diplomat who can consistently write letters to prospective customers, whose credit reports do not measure up to requirements, and get them to remit in advance of shipment for merchandise ordered when similar merchandise can be had from other sources at comparable prices.

To accomplish the above and keep the customer's good will and future patronage at the same time requires not only skill in letter writing, but a background of experience to draw upon so that the letter is not terse and insulting, but simple and friendly and couched in the language of the customer so far as possible. Here is where the sales-minded credit executive, having a knowledge of psychology outshines his contemporaries.

To be classed in the same category with the order on which outright cash must be had is the order requiring part cash with permission to ship the merchandise Sight Draft attached to Bill of Lading or C. O. D. for remaining balance as well as the order desired on open terms that can only be handled SD/BL or C. O. D. without a deposit.

Whether an order comes in unsolicited or is secured after much effort and expense on the part of a sales representative it is the bounden duty of the credit executive to save it from cancellation if at all possible. His early contacts with the customer often proves the forerunner of an harmonious, profitable business relationship enduring throughout the years.

Some years ago a manufacturing concern of whom I have intimate knowledge frowned on orders from concerns whose credit responsibility was questionable. They made little or no attempt to save such orders from cancellation, in fact, they encouraged cancellation on the ground that such business was too troublesome. A change of executives in their Credit Department brought about a change of policy which is today saving a volume of business from cancellation of upwards of one hundred thousand dollars each year.

Mr. Hillman discusses one of the perplexing problems facing credit executives—what to do with an order on which you are not yet ready to set up a line of credit?

In cases, such as the above, where early reports indicate cash or its equivalent, the writer endeavors to impress the customer with our desire to give prompt service, making no reference to our credit file reflecting unsatisfactory information or making the time worn excuse that it is incomplete, suggesting cash in advance on the first order or permission to ship SD/BL.

The letter used follows:

"We wish to thank you kindly for your order dated December 1.
We are enclosing a memorandum invoice, less cash discount, in the amount of $10.98 covering the glassware that you desire. Upon receipt of your Postal Money Order for the amount thereof, we shall place your order with out factory for production.
It is, indeed, a pleasure to serve you in this instance, knowing full well that when you have received and inspected our glassware you will continue purchasing it regularly in the future.
Desiring to give your order the earliest possible attention, we ask your compliance, hereto, by return mail. Thank you.
Very truly yours,
P.S.—Should you not wish to remit in advance you may secure the merchandise ordered by instructing us to make shipment C. O. D."

You observed, no doubt, that the letter just quoted asks for a Postal Money Order rather than a regular check or a certified check for two reasons; First: a delay in shipping the order is not necessary awaiting clearance of a regular check; Second: customers take practically no offense at being asked for a Money Order for a first or subsequent order while if a certified check is requested they become incensed at the suggestion that they would stoop to give a bad check.

Please do not be deceived, even though a Postal Money Order is demanded we seldom get payment in that form, usually a check is sent for the merchandise ordered.

When the remittance reaches us we lose no time scheduling production of items desired if not in stock. If in stock, shipment is made at once without awaiting clearance of check.

Our experience with such checks has been highly satisfactory from the point of fewness in number being returned N. S. F., particularly, (*Cont. on p.* 37)

Are we causing a huge racket?

By NORMAN A. BAILIE
President, California
State Bar Association

There is a great deal of talk about the "bankruptcy racket." Who makes it possible to work such a racket? The Credit Men of the country could put a stop to this nefarious business and also to the scheme of having receivers appointed where they are not needed.

The credit manager is the doctor of sick business, and he often accomplishes complete recovery; but sometimes the patient dies and the credit manager does not bury him—his bones are picked in bankruptcy.

Why are credit managers often so lax? Every credit man knows that trustees in bankruptcy are chosen by the creditors, that is, they are supposed to be chosen by the creditors. As a matter of fact, however, experience shows that, in many instances, certain enterprising individuals gather in the claims, elect the trustee, and dictate who shall be his counsel.

The credit men throughout the country could put a stop to this nefarious business, and also to the scheme of having receivers appointed where they are not needed, as well as the filing of involuntary petitions in bankruptcy, by people who in reality do not represent anybody. It would take some time and effort but it certainly would be worth while.

There is a great deal of talk about the "bankruptcy racket." Who makes it possible to work such a racket? Unquestionably, the creditors. I have no doubt whatever that the federal judges and the referees in bankruptcy would be more than willing to notify an established creditors' committee of every application for the appointment of a receiver, either in bankruptcy or in equity, and give careful consideration to the suggestions of such a committee.

There are plenty of figures dealing with the enormous losses in bankruptcy cases, the very small returns to creditors, and the exorbitant fees and expenses paid. These figures are, to a certain extent, fictitious, but to a large extent they are true. Why is it? I can only give you the results of my observation.

My opinion is that if the creditors would not forget their claims once a bankruptcy occurs, but would organize a committee to watch each case from beginning to end, handle their own claims, either personally or through their organization, elect their own trustees, see that proper counsel are employed, and then follow each case through, scrutinize each account, watch every sale, every compromise, every piece of litigation, every application for discharge, they would be surprised how quickly they would see results. "A penny saved is a penny won."

There is a lot of loose talk about crooked bankruptcy lawyers, and they are blamed for most of the ills of the bankruptcy practice. Who employs these lawyers? Is it not the creditors who employ them? You may not do it consciously, but you certainly cannot escape responsibility for your own neglect and inaction. The trouble is that what is everybody's business, is nobody's business, and the creditor pays for his own neglect.

No doubt many think that if the State Bar did its work properly, the business men would not have the problems we have been talking about. The State Bar is conscientiously trying to rid the bar of its undesirables, but it cannot do the work alone. We have a small army of earnest men in all parts of the State investigating and trying lawyers for their shortcomings; and I can truthfully say every case of dishonesty or violation of the rules of professional conduct which comes to the attention of the State Bar is carefully considered, and that every lawyer found guilty is recommended to the Supreme Court for discipline. But the State Bar cannot seek out all the lawyers who have strayed from the straight and narrow path. The State Bar is your servant. It was organized and exists for the benefit of the people of the State of California. If you have knowledge of the delinquency of any lawyer, report the facts at the State Bar office and the matter will receive proper attention.

Another problem of the State Bar is the matter of admission to practice. We have been endeavoring to raise the standard requirements for admission.

Our organization is criticized for not letting more in, and for not getting more out. The State Bar has disciplined more lawyers in the last seven years than was done in the whole history of California prior to 1927. We are doing our best to raise the standard of the bar, and to keep it clean. You and your organization can help us, by refusing to employ unethical attorneys, and by bringing your complaints against lawyers to the State Bar.

I have seen and heard some strange things in the course of my practice. I was in a meeting of business men when the name of a certain attorney was mentioned. One man spoke up and said: "I know him. He used to do our crooked work for us." As long as business men have crooked or shady legal work to do, and have the money to pay for it, I suppose they will always be able to find some attorney weak enough to accommodate them. A certain retailer about to go into bankruptcy brought to one of his creditors a box and asked him to keep it in his safe. After the retailer got his discharge, he called for his box, and the wholesaler opened it and took out enough merchandise to pay his claim in full and returned the balance to the bankrupt.

On another occasion I represented a creditors' committee. We had a meeting of creditors and one of the creditors offered $75,000 for the assets. A certain attorney left the meeting before it adjourned and the remark was made that a petition in bankruptcy would be filed the next morning. The petition was filed as predicted. A receiver was appointed, and the (*Cont. on page* 32)

Inflation? Will it come? In what form will it show its strongest influence?

By WILLIAM A. LYON
Financial Writer, New York Herald-Tribune.

Should inflation come in the United States—and the chance that it will come is too high for comfort—it will be an inflation different from the many others with which monetary history is familiar in that it will be a disorder of the government credit and the currency deliberately and consciously sought after by the legislative and executive arms of the state. Other inflations have resulted, not from the testing out of a monetary theory, but from the circumstance that the ordinary avenues of obtaining funds were closed.

In this country the Administration has been persuaded to experiment with two monetary theories in an endeavor to induce a rise in prices and an expansion in trade. Mr. Roosevelt, at the start of his term in office, relied on devaluation of the dollar to stimulate business through lifting the price level. Some countries, as, for instance, Great Britain, have suffered their currencies to depreciate when the balance of international payments demonstrated that their money was overvalued. But what to Britain was an involuntary action was to the United States considered policy.

More lately the Administration has had recourse to still another theory of money to speed recovery. Noting how active business was during such heavy governmental spending sprees as took place during wars, the Administration has now set its foot on the path of inflation through budget deficits. It is keeping in reserve financing by issue of fiat money. Partly because indication has been given that the devaluationists no longer rate so highly at the White House, attention is drawn in this article principally to deficit and greenback inflation as the instruments which will bear the closest watching in 1935, lest they lead to a deterioration of the quality of the government's credit.

This is the second of a series of articles by leading newspaper financial writers. Lawrence P. Morse, Financial Editor, Boston Transcript, opened the series in the January issue with an article on the need for credit control. This month's article by Mr. Lyon points out the danger of possible inflation outside of "wildcat" currency. In March, Leon Baketel, financial editor of the Portland Oregonian, will discuss the Bonneville power project in our Northwest.

As for inflation via budget deficits, the figures show that by June 30, next, the government's accumulated budget deficit since the fiscal year 1931 (with the second six months of the current year estimated) will have amounted to approximately $15,250,000,000. On June 30, according to President Roosevelt's own figures in the budget message, the public debt will amount to $31,000,000,000. This would be an increase from the post-war low of $16,026,000,000 on December 31, 1930, of about 94 per cent.

The prospect, moreover, is for a continuation over the next year and a half of roughly the present high rate of deficit building. The President calculates that, whereas the excess of expenditures over receipts in the 1934 fiscal year was $3,989,000,000, the deficit in the 1935 year will be $4,869,000,000 and in the 1936 year $4,528,000,000. He figures that the public debt at the end of June, 1936, will foot up to $34,239,000,000. This would be an increase of 112.5 per cent over the post-war low for the debt.

The classic way for inflations to begin is with large budgetary deficits. Under stress of what it considers to be an emergency, the government embarks on a lavish spending program, for the purpose, it may be, of waging a war, of rebuilding areas devastated by war (as France did in the 1920s), or of paying reparations out of resources depleted by a long campaign and the peace treaty (as Germany did before its currency debacle). Whatever the cause of the heavy expenditure, its aftermath has been cruel.

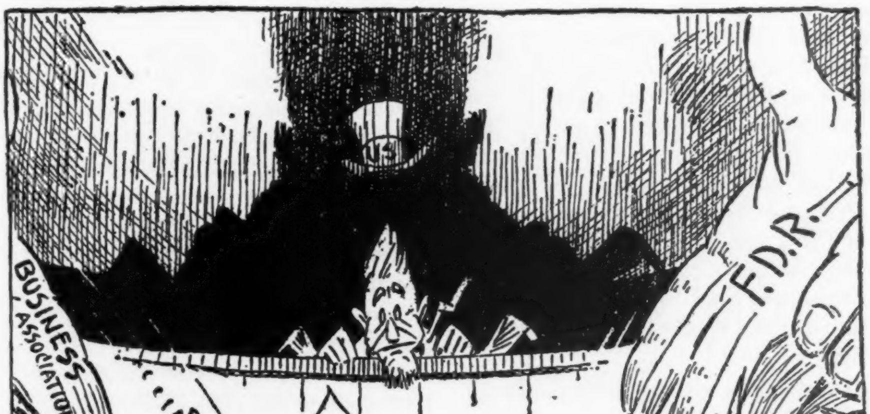
As was the case with the budget deficit of France, an important change has taken place in the character of the obligations which the United States government has outstanding. When the public debt volume was at its post war low at the end of 1930, that portion of the debt maturing within five years was 23 per cent of the whole. At the end of November, 1934, however, the gross public debt amounted to $27,299,000,000, of which the short term share was $15,768,000,000, or 58 per cent of the aggregate.

The point after short term debt is stressed because it is of the nature of inflation patterns that they show a large and increasing volume of short dated debt. Consider, for a parallel, the experience of France in the 1920s. In 1921 France had total internal funded

debt of 148,701,000,000 francs, of which 10,309,000,000 was short. By 1924, though, the short debt had risen 36,325,000,000 francs while the long debt was increasing only 8,000,000,000 francs.

There is another feature of the public debt at present which is disquieting. The proportion of the debt held by the banks has gone up from $5,000,000,000, or 31 per cent of the $16,000,000,000 total at the end of 1930, to more than $13,000,000,000 out of the $28,500,000,000 total at the close of 1934. Thus two-thirds of the expansion in debt volume has found lodgment in the hands of the banks. This fact, too, is an earmark of the classic inflationary process. For a study of the customary track of inflation shows that one of its intermediate stages is the reliance to an increasing extent upon the banks to supply the provender of the government spending agencies.

This phase of budget deficit inflation seems destined to follow, without comfortable deviation, along the path familiar to currency and credit disorders. To refer again to the French experience, we find that there came a time when the French government had exhausted not only the open market supply of funds but also the sources which it next opened up in the banks. The legal limitation on advances from the Bank of France to the government was raised from 2,900,000,000 francs at the outbreak of the war to 27,000,000,000 in 1919. Thereafter, for six years, no further increase was authorized. But in the next eight months several increases were put through, carrying the maximum limit up to 39,500,000,000 francs. (Simultaneously, be it noted, there were eleven increases in the legal circulation limit.) Even these successive advances in maximum authorized borrowing capacity were not sufficient to satisfy the needs of the government's spending program. In 1925 M. Herriot persuaded the Bank of France deliberately to understate the volume of its loans to the government. This fact did not come out until long afterward.



The relations of the government with the Bank of France are introduced here apropos of the proposal that is drawing support from many sides for the conversion of the Federal Reserve System into a central bank under the mothering wing of the Treasury. It is submitted that a change of this sort would be vicious and pregnant with evil possibilities, because the accumulated banking wisdom of the ages teaches that when a government has ready access to the credit facilities of the bank of issue it will, soon or late, abuse that access. The openly acknowledged reason for taking the ownership of the Federal Reserve away from the member banks and turning it over to the Treasury is that it would enable the government to rest assured that private banks could not sabotage its spending program. When a government must come to the market to obtain its funds, there are certain standards of credit rectitude to which it must conform. But when it has handy for use a credit engine like a central bank dominated by the Treasury, the sky, then, becomes the limit. It is a temptation which elected public servants might reasonably be denied.

One cannot help feeling that the Administration has already gone too far in the direction of making the Federal Reserve the handmaiden of the Treasury. In November, Marriner S. Eccles was appointed governor of the Federal Reserve Board. "The Federal Reserve," said he in an interview shortly after his appointment, "can assure the success of government financing as it did during the war and avoid financing on a currency or some other inflationary basis." From this statement it would appear that the Federal Reserve was already, without the formality of a change in the law, virtually delivered, lock, stock and barrel, to the Treasury.

A further disturbing aspect of the budget deficit financing is the control, both direct and indirect, which the Administration exerts over the commercial banks. The Reconstruction Finance Corporation has $831,000,000 of the preferred stock and capital notes of the banks, by means (*Cont. on page* 47)

Business speaks up about price-fixing

A symposium based on recent hearings

Highlights of price provisions in codes and experiences of industries with them featured the public hearing held by the NRA in the Commerce Department early in January. In accordance with a resolution by the National Industrial Recovery Board that a series of Policy Hearings be held at which various problems of policy in connection with codes be considered, the first on price fixing, was held at the Department of Commerce, January 9.

Nearly 300 persons, representing all sections of the business community, presented oral statements or filed briefs. "DOMESTIC COMMERCE" selected the following abstracts from various of the talks made during the meeting, which are especially pertinent to price control provisions in codes. Press releases covering these hearings are available from NRA.

There is wide variation among prices of commodities in any single market. Of the 800 commodities on the Bureau of Labor wholesale price lists, 28 have not changed and 18 fell 25 percent below their 1926 level. Prices are an intimate part of the whole economic picture, so that any specific industry progress must be viewed in the light of its effect not only upon other economic factors in the industry, but upon other industries as well. (Willard S. Thorpe, Chairman of the Advisory Council, NRA.)

The 37 cost systems submitted by industries and approved by NRA, and those provided in codes as originally approved, most assuredly have exercised an influence towards price stabilization and price control. In a number of industries production control has been helpful in maintaining prices, as in textiles, coal, copper, lumber and gravel. The most that can be expected from code price control is that violent fluctuations can be kept out of the normal price line. It is a fallacy that industries with stabilized prices maintain production; those with the best employment records are those with prices below the average. Where there has been price competition, production and employment have been maintained. (Leon Henderson, director, Research & Planning Division, NRA.)

Violations of minimum prices are the most difficult to deal with, and give the violator the greatest competitive advantage over those businesses attempting to adhere to the code price structure. Court penalties are insufficient to offset this advantage. Minimum mark-up provisions of codes are not impracticable and are generally effective in dealing with the problem of loss leaders . . . Ineffective and inoperative price control provisions in codes adversely affect the entire code system. (Sol Rosenblatt, director of Compliance and Enforcement, NRA.)

When prices are established openly, as under the open price plan, every producer has the right to make any price he sees fit, but the price he makes becomes his established price, known to all. If he makes his price too low, he loses money; if he makes the price too high, he loses business. (H. H. Lind, general manager, National Machine Tool Builders' Association.)

Support of the open price provision constitutes one of the most fundamentally constructive steps toward making it possible to have intelligent management of American business. NRA should include in its price policy properly safeguarded procedures which actually prevent price wars in their earliest stages. (H. S. Dennison, Dennison Mfg. Co.)

In many industries waiting periods between the time prices are filed and the time they become effective are essential to successful operation of price filing provisions. (J. W. O'Leary, president, Machinery and Allied Products Institute.)

The open price provision in the fertilizer code has decreased fraud and misrepresentation and destructive price cutting which in 1931 and 1932 threatened the industry with self-destruction. Prices of fertilizer increased the least of all commodities bought by farmers. (C. J. Brand, Fertilizer Recovery Committee.)

Cost restrictions constitute crude and absurd restraints upon competitive industry. Perhaps the most dangerous of all price fixing devices in manufacturing codes is the open price association now incorporated in 137 codes. (Q. Forrest Walker, economist, R. H. Macy & Co.)

The loss-limitation provision of the Drug Code, prohibiting retail sales below the manufacturer's list price in dozen lots, has been a notable success. It helps protect the small man from monopoly. (Wheeler Sammons, National Retail Drug Code Authority.)

The independent producer need price stabilization measures in order to remain independent, and prevent the growth of monopoly. (J. H. Williams, Drop Forge Industry Code Authority member.)

Open price systems do not permit large manufacturers to dominate and browbeat smaller units. The little fellow don't have to follow an advance in price, while every industry must follow a decline in price. (F. A. Bond, Code Authority, Chain Mfg. Industry.)

Some price controls have been used as a pretence by industries for setting up their own price controls elsewhere. (H. B. Arthur, National Emergency Council.)

Price control in the lumber industry, forced by chronic overproduction, was beneficial for several months, but did not have a fair trial, because it did not cover lumber wholesalers, it had been attacked by public officials, it did not receive early enforcement and a Supreme Court decision establishing the validity of price control did not eventuate. (D. T. Mason, Lumber Code Authority.)

The code should define some limit of

protection against the self-destruction of retailers by cut-throat competition. (W. A. Hager, president, Pa. Retail Dry Goods Assn.)

Price-fixing leaves the consumer at the mercy of the producer and the distributor, and eliminates the protection which competition under the anti-trust laws gave, without substituting any other safeguards against prices that are above a fair level. (Mrs. H. T. Baldwin, vice-president, Nat'l League of Women Voters.)

Until industry is earning a return which does more than merely replace impaired working capital, make possible the restoration of credit, replacements and improvements on a reasonable scale, pay interest charges and some small return in the form of dividends, it is idle to class these activities of the NRA as producing the evils of monopoly. Minimum price provisions do not fix prices; all they do is to set a limit below which price competition shall not force down prices . . . Open price filing prevents misrepresentation by buyers as to prices alleged to be offered by others . . . Sales below cost provisions are used as shield against the forcing down of prices below a fair competitive level . . . Minimum wage and hour provisions do not afford a sufficient guard against price cutting . . . The government is justified in fixing a boundary below which there should be no competition. (G. A. Sloan, Cotton Textile Code Authority.)

Evidence before the Consumers' Advisory Board indicates that provisions in the codes authorizing price fixing should almost without exception be eliminated, and any re-instatement made contingent upon a showing of both necessity and desirability far clearer than that which has been submitted prior to the adoption of these provisions. (D. M. Keezer, Consumers' Advisory Board.)

The loss limitation clause of the retail drug code has saved millions of dollars to consumers and promises to continue to save them millions per annum. (John A. Goods, chairman National Retail Drug Code Authority.)

Capacity adjustment provisions do not diminish the production of an industry. Resulting stabilization tends to increase consumption. (Golthwaite Dorr, president, Cotton Textile Institute.)

Machine hour limitation is the promotion of inefficiency, and has increased production costs by directing production to inefficient units. (R. E. Watson, Johnson & Johnson.)

Price control should be abandoned. Recovery for business is not recovery for America. More attention should be given to the consideration of the ultimate consumer. (J. J. Hader, Consumers Research, Inc.)

Price fixing cannot be enforced, cannot be administered fairly, and because of the misunderstanding of the consumer, causes adverse effects on the market. (J. M. Butler, Pharis Tire & Rubber Co.)

Price control is the only method by which our market can be stabilized. (C. D. Hudson, National Wooden Box Assn.)

Price provisions in the retail drug and tobacco codes bring about destructive price fixing by the manufacturers. (Paul Stinson, Katz Drug Company.)

After a year's experience with prohibition of sales below replacement cost, merchants have built up their stocks, employment has increased, operations of merchants changed from a loss to a profit, manufacturers operations improved, price levels advanced less than 10 percent from the depression low point. (A. W. Leslie, Paper Distributing Code Authority.)

Price cutting provisions are not price fixing, but are essential in an industry with a small unit cost. (Henry Stude, Chairman, National Bakers' Council.)

The paper and pulp industry needs to continue the present pricing provisions. (S. L. Wilson, Paper and Pulp Code Authority.)

Price fixing is unsound and not effective. Better a development of cost consciousness within the industry plus a definite curb against selling below cost. (E. W. Palmer, coordinating Committee, graphic arts industry.)

The cigar manufacturing industry, after two months of price maintenance, has taken on a new lease of life. November and December sales increased from 40 to 50 percent over the same period in 1933. (R. Rhinehart, cigar manufacturing industry.)

Mandatory cost provisions, prohibition of sales below cost, and open price filing provisions are especially necessary in industries where labor is being paid in excess of the minimums prescribed by the codes. (D. P. Blake, Retail Monument Code Authority.)

The open price provision has been extremely helpful to the agricultural insecticide and fungicide industry. (R. M. Chipman, of code authority of that industry.)

The construction industry hopes that the divisional code's price control provisions will be made permanent, with strengthening of open price system of bidding, enforcement of prohibition of bids below cost, and establishing of a cost finding and cost estimating system. (L. W. Davis, Electrical Contracting Division Code Authority of Construction Industry.)

The demand for "credit"

RAYMOND V. WALL,
Cobalt, Connecticut

In view of the present widespread discussions which are taking place in the public press throughout the country at the moment—the demand for more "credit" from business, and the repeated demands that are being made by the Government on bankers to "loosen up" —it seems opportune to review the bankers' function and to analyze this new and persistent demand for greater "credit."

In the first place, the commercial bank, with which most of the business men deal, is a depository for our business funds, which are subject to check. The money the bank is able to earn, in order to render this service, is obtained by loaning money to other business men and through the purchase of good interest bearing bonds, mortgages, etc. Its first duty is to safeguard our deposits, and this can only be done through sound loans and sound, self-liquidating investments.

Commercial banks, therefore, are only entitled to make loans to business men on self-liquidating collateral, i.e., raw materials which will be converted into finished products and sold—merchandise stocks which must be bought in advance and sold when the market for them opens—loans against receivables which will be paid when invoice falls due, etc. Such loans are all self-liquidating, and if the loan has been honestly made, there is little or no question of its liquidation when the note falls due.

It is the duty of all commercial banks to make loans of this kind promptly to any reputable borrower, and it is safe to say that most banks today are eager to loan as much as they can on just such kind of paper. This kind of borrowing represents real credit, and we are in a position to assert that there is not alone no lack of real credit today, but, on the contrary, the amount (*Cont. on page* 45)

Credit side of factoring

■ Starting far back in the early days of the American colonies, factors were leading elements in all merchandising.

■ Factoring today stands in an important role in many lines of trade. Here is an interesting description of how the factors operate in modern trade.

By KONRAD F. BRAUN, Vice-President, In Charge of Credit, Commercial Factors Corporation, New York City

■ "Just what is a factor and how does he function in the channels of commerce?" When one travels inland from the seaboard and the larger textile manufacturing centers, this and similar questions are often repeated. Many seem to have a hazy idea that factors serve as financial agents and that they have some sort of connection with credit appraisals in such connections, but we venture the guess, judging from the inquiries made of us, that few members of the National Association of Credit Men outside of New York and perhaps the New England and Southern textile fields, know much about the factoring business.

So it happens that I have accepted the invitation of the editors of Credit and Financial Management to write about some of the main features of factoring and how a factor functions in the general commercial cycle.

Turning to the dictionary we find that the word factor in business transactions means an "agent to buy or sell." The earliest examples in this country came when the English companies named certain men as their factors. These men were the recognized agents of the English companies. They had full power to conduct business for the account of the companies. The companies shipped their merchandise to the factors who in turn traded it to the natives for local products such as furs, fish, lumber, wool and other similar products.

Most of the present factoring houses originated as importers, importing merchandise for their own account. As their business developed they also obtained merchandise on consignment from foreign manufacturers and attended to the selling and collecting of accounts receivable for these mills. Foreign manufacturers, not knowing credit conditions in this country, held these houses responsible for the credits extended to the customers.

Eventually, it was found that selling for various mills had to be divided amongst several agents and these agents assumed the selling of the goods, while the factor having grown financially strong assumed the responsibility for the safeguarding of the merchandise, collection of accounts and guaranteeing of the customers' credits. This assured the manufacturer of individual representation, at the same time assuring him the safety of his collections.

In connection with importations, the factor advanced expenses and duties, deducting these items before remitting the net proceeds to the manufacturer.

When, at the turn of the century, tariffs on foreign merchandise were increased many of these selling agents found it advantageous to start factories in this country, or represent domestic mills, and as most of them would not have sufficient funds, they employed the factor in the same way as did the foreign manufacturer heretofore, namely, to consign merchandise to the factor for advances of money, to carry and guarantee the accounts receivable and to guide them in their operations.

For quite some time the factor advanced money against merchandise as security and as long as productive facilities were not as great as today and merchandise values reasonably stable, these advances on merchandise were economically sound. Under today's conditions, when merchandise can be produced in quantities in a much shorter time, when transportation facilities are much improved, and the entire process of manufacturing has been cut down as to the length of time, these advances have become less frequent and are only called for in anticipation of the season.

The arrangement between the factor and the manufacturer is not a day in and day out arrangement, but usually for a period of time. When the manufacturer receives an order from one of his customers, this purchase is submitted to the Credit Department of the factor for approval. The factor advises the manufacturer's sales department to what extent it believes it can assume the credit risk at the time of delivery, so as to safeguard the manufacturer against making goods in greater quanti-

ties than the customer can potentially absorb. When the goods are made and before shipping the merchandise, the sale is again submitted to the factor for final approval in case the customer's financial situation should have changed in the meantime. Upon approval by the factor of the credit of the customer, the factor assumes the whole risk on the transaction and immediately cashes the sale to the manufacturer; thus, putting the manufacturer in the same position as if he had nothing but cash customers. This relieves the manufacturer of the credit risk, of borrowing money to carry his accounts receivable, and of collection expense. When the bill matures the customer pays to the factor direct, as each invoice rendered by the manufacturer who has a factoring contract, carries an assignment which makes the invoice payable to the factor. Should payment not be received, the factor's collection department takes the usual steps to collect the invoice, and only in case the customer claims that the merchandise sold is defective or not up to standard, or such other claims as may arise between seller and buyer, has the factor recourse to the manufacturer. Any loss resulting from insolvency of the customer, to whom the goods were sold, with approval of the factor, falls upon the factor and is part of his expense. Such an arrangement must, of necessity, be a continuous one, and include all of the sales made by this manufacturer as otherwise the factor would neither control the credit granting to the various customers of the manufacturer, nor could such an arrangement be carried out economically at the relatively small rates which the factor charges. At the same time it is advantageous to the manufacturer to know definitely what his expenses are relative to credit department, credit losses, collections, and bookkeeping of customers' accounts.

As the contract with the factorcalls, usually, for a termination only upon two or three months notice, the manufacturer is assured of continuous financial service.

The method of operation of the factor should not be confused with the operation of a finance company advancing moneys against receivables on a so-called non-notification basis. The finance company merely advances funds on the security of the accounts receivable but does not guarantee the solvency of these accounts, nor do they render collection service. As the finance company does not guarantee the credits of the accounts against which loans are made, it stands to reason that it must set up a reserves to cover credit losses which reduces the amount available to the manufacturer, but which is not necessary under a factoring arrangement. Under a finance company arrangement, it is necessary for the manufacturer to carry a full customers' ledger, do his own collecting and pay service charges to the finance company for supervision and checking up of the outstandings.

In other words, he is not relieved of any of its expense burden, while the factor assumes a good share of the expense and all of the solvency risk of the accounts receivable. By selling his accounts to a factor the manufacturer reduces his contingent liability, while in taking advances on accounts receivable, the manufacturer remains fully liable for any insolvencies occuring amongst his accounts and, therefore, creates a large contingent liability. While the charges of the factor, compared to the finance company appear higher, there are these offsetting features as well as the cost of services rendered to be deducted.

The factor has become a specialist in credits and, naturally, developed his credit department to the fullest extent. He will subscribe to various kinds of reporting services which would be too costly for the individual manufacturer to use, and a great deal of information drifts into the factor's credit department by reason of the widespread contacts.

Konrad F. Braun, author of this interesting article, has been for several years a leading spirit in the New York Association of Credit Men.

By comparing the methods of operation and distribution of various manufacturers in similar lines, a factor often is in a position to analyze more in detail the reason for the successes of these concerns, and advise their clients accordingly. It has also been found that the credit men of the factor can more openly discuss a customer's financial affairs with him, as the customer has the distinct feeling that his affairs are being analyzed from an entirely independent viewpoint, primarily for his own benefit.

Collecting of accounts receivable can, at times, be an onerous task but the circumstance that the factor has to perform this duty often leaves the manufacturer's salesman in a better position to retain the good will of the customer for future dealings.

There are many businesses which show decided seasonal peaks, meaning, that their activities during certain times of the year are probably two to three times as great as at other times. The manufacturer who has a decided peak may find that at certain given times his money requirements would be very great, while at other times his money may be lying idle, likewise, his credit, bookkeeping and collection staffs may be overworked at certain times of the year, and a drain on his expenses at other times. Through the services of the factor this expense is reduced to a steady percentage per sale, regardless of whether his activity is great or small at the moment.

The services of the factor frequently permit the manufacturer to add volume which he otherwise could not obtain in safety and with his financial resources. This added volume quite frequently permits larger profits from operations, fairly out-weighing the service charges of the factor.

The factor so far has operated mostly in the textile field. Its credit department handling the output of a number of mills is, of necessity, more familiar with the credit standing of the customers in that field, and due to the large capital which the factor employs is often in a position to extend credit limits which the individual manufacturer should not hazard on his smaller capitalization. Through the services of the factor the manufacturer is enabled to carry any amount of receivables he is able to create without thereby increasing his risk which ordinarily is involved in extending large credits. The credit department of the factor, (*Cont. on page* 36)

Marketing expert points out factors that should benefit business in '35

By CARLTON N. CARTER

Director, Management Institute, Indianapolis.

The job assigned to me is that of summarizing reports presented by the preceding speakers. In order that I might do this to some point and purpose, I have chosen to imagine that I am an industrial executive who has just listened to the predictions of a number of experts with respect to conditions under which I will be forced to operate in 1935.

In order that my position may be made more clear, I have decided that for purposes of this summary I shall play the part of the President of a manufacturing establishment having a net investment of perhaps $200,000.00; reasonable working capital and a clear plant equipped for the production of warm air furnaces and of replacement parts of furnaces and heating stoves. I have chosen this particular business deliberately because its products have two very distinct replacement cycles and because they enter both the city and farm markets.

I have chosen a company in comfortable working capital position because in order to be able to choose a policy and follow it without restraint I must be free from dependence upon federal sources of credit.

(A recent experience of ours involved application by a small manufacturing concern, in need of working capital, for credit from both the R F C and the Federal Reserve Bank in Chicago. The application was returned unapproved from the R F C for the reason that it did not portray a sufficient need for relief, and the application to the Federal Reserve was returned because in the opinion of that institution the financial statement was not sufficiently strong to justify a loan. This instance is typical of the dilemma in which many executives, in less fortunate position than I, find themselves today.)

Every active N.A.C.M. member knows that Forum meetings of his association are the ones where the real "sparks fly." With discussions led by fellow members and with the subjects generally pointed sharply toward the problems in which the credit executives have the deepest interest, these Forum meetings develop a quality that no other kind of meeting seems to possess.

A recent Forum held by the Indianapolis Association of Credit Men demonstrated this point. The subject up for discussion was "The Outlook for 1935." Mr. H. D. Eberhart of the Indiana Bell Telephone Company spoke on "Review of Recent Business Trends." Mr. Edward Van Riper, of Sidener, Van Riper and Keeling, summarized "Forecasts of 1935 by Economic Services." Dr. M. G. Bridenstine, of Butler University, told of "The Financial Outlook." Mr. W. U. Bishop, of Spradling, Carter and Jordon, and Mr. E. H. Voges, of Prest-O-Lite Storage Battery Corporation, presented "The Outlook for Industry." Mr. Harry P. Britan, of the John Deere Plow Company, and Mr. W. B. Spurlock, of the Eli Lilly & Company, gave their views on "The Outlook for Agriculture."

An interpretation of all of these discussions was given by Mr. Carlton N. Carter, director of Management Institute of Indianapolis. His discussion was from the standpoint of a marketing expert. As is usual with Forum meetings, there were a number of "live sparks" in each discussion. However space prevents us from giving more than the highlights of Mr. Carter's talk, which we believe will be of deep interest to every credit executive.—Editors.

With this description of the position of my concern before you, we can proceed to a discussion of how the advice of my experts will be applied in 1935.

Finance

Dr. Bridenstein reassured me in considerable degree as to what I may expect financial conditions to be. Then Mr. Britan with his picture of billions in agricultural benefits scared me unmercifully. Dr. Bridenstein has shown that the ground work is present for runaway credit inflation. He has further said, however, that in his opinion the banking situation will not be materially altered at least early in the year except that it will feature increased efforts to extend credit. I was particularly interested in his expression of the belief that financial data lags behind business activity. My bank cannot lend me money unless I ask to borrow it. Book credits do not become money until called out for use. Bank reserves are potential money rather than actual money.

In view of this I shall not worry in planning my operations for 1935 about the difficulties or dangers of run-away credit inflation. I shall expect my bank to take care of my peak load for funds as usual and I believe that this expectation will be fulfilled.

The statement of Mr. Van Riper that commercial casualties will be lower I am quite ready to accept and I think I shall be somewhat more liberal in granting credits in 1935.

Production

The information presented by Mr. Bishop as to the immensity of deferred

replacement demands I found to be of great interest to me. If 60% of the houses in the United States are in need of repair it is reasonable to suppose that there will be an enlarged demand for furnaces and for repair parts. Since a similar situation obtains in the case of railroads and that of manufacturing industries generally, and since the force of public policies is to be directed along the line of encouraging rehabilitation of physical property and equipment, on this account I shall expect the public mind to be in a way prepared for increased purchases of products such as mine and, with due regard for the predictions as to the general level of production, I shall expect increased activity within my plant.

While I believe that the thirty-hour week offers serious possibilities by way of lowering our present standard of living, it seems evident from the advice of Mr. Bishop that I need not give this much thought in 1935. The durable goods industries including mine are now working an average of less than thirty-three hours per week so that my costs cannot be greatly increased by reduction of the present limitation on working hours. It does not seem likely that the thirty-hour week will be placed in force within the coming year.

My product having two definite replacement cycles, I must consider these two divisions separately in the light of probable marketing conditions before attempting to set a production schedule. Mr. Hamerin has indicated that prices of finished goods are not likely to rise materially, while Mr. Van Riper, referring to the United Business Service, assures me that there will be no increase in operating expenses comparable with the increased business in sight. In controlling expenditures for materials, however, I think I shall make reasonable commitments for manufacturing requirements and I am sure that I shall not speculate by buying materials in excess of current production needs, for speculative purposes. I shall enforce all possible economy in usage of materials. When strengthening commodity prices are predicted it is important for me to remember that such price increases mean higher expense as well as increased income. Such rises actually work their way from raw material to retail sales and since my raw material is the finished product of another manufacturer, I shall expect some advances, by reason of which drastic economy in usage becomes the more important.

I shall make an honest, open approach to the labor problem having in mind that type of fair dealing which involves the fundamentals of good human relationships. I do not believe we have entered a new era with any substantial changes in human nature and I do believe that my workmen will respond to the same type of good treatment they have received in the past, their response being perhaps quickened somewhat by our slow but definite progress toward broader conceptions of mutual objectives and mutual respect.

Because I believe that human nature is unchanged, I shall be certain that my standards of performance are accurate and I shall offer reasonable financial incentives for good performance.

Check list

Note these important business elements and how they check with your present program:

FINANCE
LABOR RELATIONS
PRODUCTION
MARKETING
CONTROL

Incorporation in the new codes of substantial wage minimums will force me to consider individual performance records of all workmen and more particularly of those whose wages have in the past fallen below the minimum scale. I am required to pay this minimum but I may pay it to those individuals who most nearly earn the specified weekly pay.

With all respect to the new thought in the matter of subsistence homesteads mentioned by Mr. Britan, I shall not decentralize my work nor seek farmers to labor in my factory!

In controlling expenditures for manufacturing overhead, I shall be on the lookout for higher prices generally and for higher taxes in particular. Any reduction in working hours will intensify the problem of controlling outlay for indirect labor and for manufacturing overhead generally. Only an increase in units produced and the most careful comparison of actual expenditures with standard outlay are available for the reduction of overhead per unit.

Marketing

It is significant that the leading economic circles are forecasting only the first quarter of 1935 in any positive tone. Babson and United Business Service are not far apart in the prediction that business generally will be from 5% to 12% greater in volume than that of 1934. The latter service predicts the largest relative gain for new home construction and states that residential construction has recently been running 15% ahead of 1933. Against these optimistic predictions I observe from the remarks of Mr. Bishop and Mr. Britan that the prices of building materials and labor are too high in relation to the general price level. Mr. Britan's chart shows a 24% increase in the price of building materials since the 1933 low. Such increases in price will present an obstacle to the installation of new furnaces.

In this connection, I noted with particular interest the remarks of Mr. Van Riper and Mr. Voges. The former speaker said that mail order sales were especially good and that mail order prices have been kept generally at the 1933 level, and the latter reported that prices of new automobiles will be kept low in 1935.

Mr. Britan's report on the farm situation I regard as reason for a bullish viewpoint of my 1935 operation. Farm income which increased more than a billion in 1934 seems destined for an even larger growth in 1935. Farm taxes have been markedly reduced by reason of the eclipse of the property tax as the mainstay for state and local revenue. Farm mortgages by the millions are reduced in both principal and interest rate by wholesale readjustments by the many available branches to the Farm Credit Administration. I shall remember, too, that some 60% of our farms are not mortgaged at all.

Important in this connection is the undisputed fact that the savings ration on the part of farm families is much higher for given incomes than that in the city. This saving, further, in the case of the farmer goes into tangibles. It is not largely invested in stocks, bonds, or life insurance. Some of it will go into furnaces.

In passing, if I may be facetious, I think we should note that potential farm customers must be very busy renewing government notes and may not have time to meet my salesmen. Mr. Britan has described a perfectly bewildering array of loaning agencies which the farmers may, if not indeed they must, patronize.

I cannot think that the whole picture

is bullish. Two things at least disturb me. First, potential tax increases offer a likely obstacle to greater increases in consumer purchasing power. Second, if the farmers are to have billions in new income, I must recognize that much of this comes in the form of processing taxes taken literally by the millions from the pockets of my city customers.

Having in mind the great force of newspaper propaganda and the prospective emphasis in 1935 on improved housing, and in the light of all the other considerations just noted, I think I shall plan an increase in production for 1935 of about 15%. I shall endeavor to keep prices at their present low point and to lower them still further, if I can.

I shall do some engineering research upon my product. First, I see no reason why a warm air furnace should be an ugly thing in a modern basement. I shall call a competent artist and see if something cannot be done to make the customer proud of a new addition to his basement equipment, even though it be a practical heating unit.

I believe that with proper engineering, I can easily cash in on some of the air conditioning propaganda now rife. On the other hand, being facetious again, this one hundred million dollar forest shelter belt from the Rio Grande to the outskirts of Winnipeg interests me. Should the administration in charge of forest shelter belts be completely successful in its objective of increasing humidity, it may construct a terrible brake on the air conditioning industry! Possibly, however, the effects of this will not be felt in 1935.

Having planned an increase in production, low prices and a campaign in the farm and small town market, I shall look well to the standards and incentives in my sales department. The proposed campaign must not be loosely controlled, and carefully studied standards and incentives are perhaps more important here than in the factory; certainly they offer if successfully operated, great promise in the way of sales results and expense control.

Control

Before we enter into a discussion of how my business shall be controlled in 1935, let me first say that in my opinion nobody can insure either small or reasonable profits to business; profits at any point and in any business at any time depend chiefly on management, which is personal and alive and which is not to be charted in a central national office. Much of the bad advice which I have been compelled to hear and read in the past two years has been predicated upon the statement that America lives under a profit system. I was particularly pleased to hear Dr. Bridenstein refer to it as a "profit-seeking-system," better perhaps, a profit *and loss* system. Profits do not come out of Washington, but are eked, if possible, out of my business. This business I must control from my place within it.

I must be in general, after the advice given me by these experts, somewhat optimistic but in all deference to them, times are still uncertain. I must be prepared to change policies almost instantly and I must know in advance as far as is humanly possible just what will be the shock upon the several departments of my business of these quick shifts in direction.

As my principal book, I shall use a flexible budget within which my standards for fixed and variable expenses at varying volumes of sales and production will be set up. From week to week and month to month my attention will be called to those points at which my income or expenditure departs from standard practice. In this way I shall secure some degree of economy in my use of administrative time and effort.

I do have a long range program for my business which gives me some idea of where I expect to be one year from now—3 years from now. If conditions were settled about some normal at whatever price level might be named, I could use this long range program from month to month, but not now.

To me man is a part of nature, deep rooted in his habits and peculiarities. It follows, then, that the leading fundamental factors in the present situation are biological and psychological, and that these fundamentals will remain dependable. I do not despair therefore of the ultimate value of my long range program, but I do believe that its application in practice must await the day when business men in general have returned from Washington and set about the regular duties of their daily business. It must await also the return of self-reliance to the American people in general and in particular to those noisy minorities which have recently taken such a vital part in disturbing the erstwhile tranquility of these beloved United States.

The anniversary of Washington's birth is an excellent time for a check of business plans. Wayn Smith's drawing for our front cover depicts that famous equestrian statue of Washington as a warning to the spirit of our times to "Stop—Look—and Listen."

How a half-million dollar customer was saved through unusual credit methods

By GEORGE APPLEGREN

Special Correspondent

The Jackson Company's account was past due and they owed $2,000. That, of itself, was bad enough, but they were not buying anything, and that was of vastly greater concern. The year before they had bought more than $300,000 worth of electric motors from The Louis Allis Co., and they had discounted those bills.

Louis Allis wanted to find out what the trouble was and so on a trip down East he called on them. They received him cordially, as they always had, and they wanted to pay but couldn't—which, they said, was all there was to it. Back in Milwaukee he summoned O. F. Pihl to his office and after explaining the situation suggested that he pay them a visit with a view of getting things straightened out.

By his title, Pihl is the Allis company's secretary and credit manager. He has held the latter title thirty years. Actually, he is somewhat the official trouble shooter around the place and has a finger in about everything that goes on.

Instead of being just an inconsequential arm of the accounting department, with a desk in a corner, the Credit Department's judgment is sought on many matters. The accounting department is really a branch of the credit department. It contacts every other department. Pihl has made it his place to know about costs and to help out the sales department. His office keeps up-to-date records and comparisons, and he makes personal contacts with customers. The Allis standard of service has to be maintained, and he helps in this; and occasionally the engineering and manufacturing departments have to be pushed, and he pushes these. Passing on credit responsibilities and jacking-up slow pays are but a small part of his job. He never intends that they shall occupy his entire day.

"Too much time is spent by credit men in pouring over daily accounting and ledger statements. They are important, yes, but there are other things more important," he says.

To Pihl, Jackson officials told much the same kind of a story they had told to Louis Allis. What it amounted to was that they were simply waiting around for the sheriff to come along and tell them they were through. He listened to them for three hours. Then he started to work, in his own way. He asked questions. He wanted to see their cost sheets and selling prices. He dug into their accounts receivable and demanded to be told why this account and that one had not been paid. He studied their payrolls and asked the production capacity and ability of each employee.

He showed them where their costs were either too high or their selling prices too low. Long discussion showed their costs to be about right. They said they could raise prices to insure a profit margin and still hold their customers. They gave no explanation when we wanted to know why they had not dunned some of the accounts receivable. Pihl explained they were only making trouble for themselves when they permitted accounts to become past due. He urged that they incorporate an aggressive collection compaign as a part of their comeback program. By midnight he was going strong.

O. F. Pihl, Treasurer and Credit Manager of the Louis Allis Company, points out how off-standard ways sometimes are the best.

When he was finished, well on toward morning, he had shown them that instead of being nearly bankrupt they were really liquid with good prospects for the future.

However, the road was not wholly clear yet. To go along they had to have cash—immediately. As near as Pihl could figure, they needed $7,800 for current payroll and the usual business urgencies.

Eighty per cent of The Louis Allis Co's. manufacturing activity deals with off-standard equipment, and more often than not Pihl's ways of doing things are off-standard. He had gone down East to collect $2,000, or to make arrangements whereby it would be paid. He wound up by sending a telegram to Louis Allis suggesting that the company lend them the necessary $7,800 secured by twelve notes for $650 each at 6 percent payable on thirty-day intervals.

And Louis Allis, himself used to off-standard things and ways, wired right back that he was sending the company's check for the amount, air mail special delivery.

Since this happening took place, not so many years ago, the Jackson Company has bought more than a half million dollars worth of Louis Allis' electric motors.

Pihl's ideas about running a credit department differ from the cut-and-dried rules by rote. For example, he does not believe that the credit department should be charged with a loss sustained through the business failure of an old customer.

Take the case of another "Jackson Company." This one failed two years ago owing The Louis Allis Co., $5,500. It was common knowledge among the trade that they had been slipping for a couple years. Yet, he continued to fill their orders and the account was active right up to the end.

Did he err in giving them credit? Was it, in fact, a loss at all? How was it handled?

Answering these (*Cont. on page* 43)

Latin-American credit and collection survey

by W. S. SWINGLE, director of the Foreign Department and the Foreign Credit Interchange Bureau of the National Association of Credit Men.

The survey of credit and collection conditions in twenty-one Latin-American markets in the closing quarter of 1934 indicates a very general improvement in credit conditions within these countries. For three out of four quarters of last year, a general improvement was noted. During the third quarter there was a recession in a number of markets but the downward trend was reversed very substantially in the final quarter of the year so that at the beginning of 1935 we find the general background of credit conditions in these markets generally better than they were a year ago.

From a number of markets collections have improved substantially. The upward trend, however, as far as collections are concerned, has not been as marked as the background of credit conditions within the countries largely due to the difficulty of exchange transfer in many markets.

The gain in credit conditions was more marked than in any of the previous quarters of 1934 and we now find ten of the countries in the classification of good or fairly good, two where credit conditions are fair, four still classified as poor, and five remain in the classification of very poor.

As in previous surveys, the indices of credit conditions and collections are compiled on the percentage of replies received from members of the Foreign Credit Interchange Bureau who are actively engaged in business in the various markets covered.

Of the twenty-one markets covered in the survey, sixteen showed a gain, in most cases of substantial amounts, in the last quarter as far as the index of credit conditions is concerned. This is particularly noticeable in such countries as Porto Rico, Venezula, Colombia and Cuba. Gains have also been made in the index for credit conditions in Panama, Argentina, Peru and Salvador. In only five countries was there a decline in the index of credit conditions and in all but the case of Costa Rica this was moderate and had little, if any, effect upon the relative standing of the country in the general classification. Mexico at the close of the year continued to head the list with the highest index of credit conditions, having gained this position over a period of many months by a steady improvement.

It should be remembered that the index of credit conditions refers only to commercial transactions and to the opinion of those doing business within these countries and does not refer to the Governmental debts or the credit standing of the particular Government or to its bonded or service obligation.

There has been what might be called a boom in internal conditions as, for instance, in such countries as Brazil. Conditions in Colombia are very much better and Cuba also has shown considerable improvement.

While the credit conditions within a country have a general bearing on the credit risk and the payment of obligations within any particular market, the question of exchange transfer is still of importance and continues to present difficulties for obtaining dollar exchange. The credit risk, as differentiated from the exchange risk, continues to be generally satisfactory where proper checking of the moral and financial responsibility of the individual buyer is made. There is no indication of an increase in credit losses. In fact, the comparatively limited business permitting of a choice of better risks has improved the risk from the credit point of view. Improving prosperity within various countries has done much to rebuild the financial and moral responsibility of various individual buyers.

In order to see what progress has been made during 1934 a comparison of the index of credit conditions in the closing quarter of 1933 and the closing quarter of 1934 has been made. The graphical charts would indicate this comparison and run back to the closing quarter of 1933. All of the countries with the exception of Costa Rica show an improvement in the twelve months' period. The most substantial gain was made in Cuba followed by gains in Colombia, Chile and such countries as Ecuador, Haiti, Mexico, Nicaragua, Panama, Peru and Venezula.

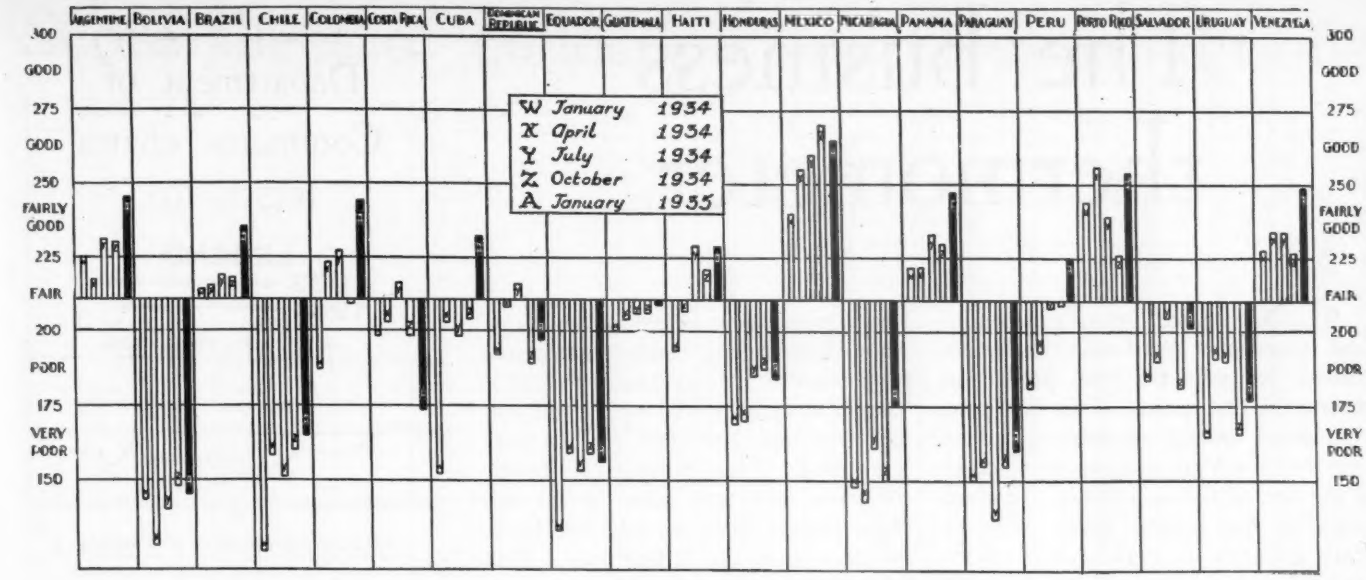
While improvement was shown in a number of these countries from the situation of a year ago the gain has been from a low point in the rating as for example Chile, and Ecuador, so that although a substantial improvement has been made it still has not reached what might be called a satisfactory background of general credit conditions. Improvement in such countries as Argentina and Brazil has also been substantial.

By referring to the chart of the collection index, it will be noted that there has been some reversal of the situation existing in the survey of the three quarters of 1934. At that time collections showed improvement while credit conditions generally showed a decline. However, in the closing quarter of the year the marked improvement in credit conditions was not followed by the collection index noted in the majority of cases.

Generally throughout the year there has been some improvement but there are still a number of markets where difficulties continue to exist. Generally speaking, however, from the point of view and taking all factors into consideration, collections continue to be relatively better than credit conditions might indicate, payments in local currency are generally made promptly, and during the past year there has been a relief in exchange restrictions.

Numbers of accounts have been taken care of through the free exchange market. Present and future shipments to many countries where restrictions exist as far as the official rate of exchange is concerned are nevertheless handled promptly through the open market.

For over half of the countries the collection index brings about a rating of prompt or fairly prompt. The balance close the year with a rating of slow



Credit conditions in twenty-one Latin-American countries scaled on the basis of the credit condition index figures which express mathematically the combined opinions of individual reports on each country.

or very slow. With the exception of Costa Rica which has shown a decline in the closing quarter of the year, the countries where collections are still classified as very slow, such as Chile, Uruguay, Brazil, Ecuador, Nicaragua, Bolivia and Paraguay, although somewhat improved, have shown little change during the year.

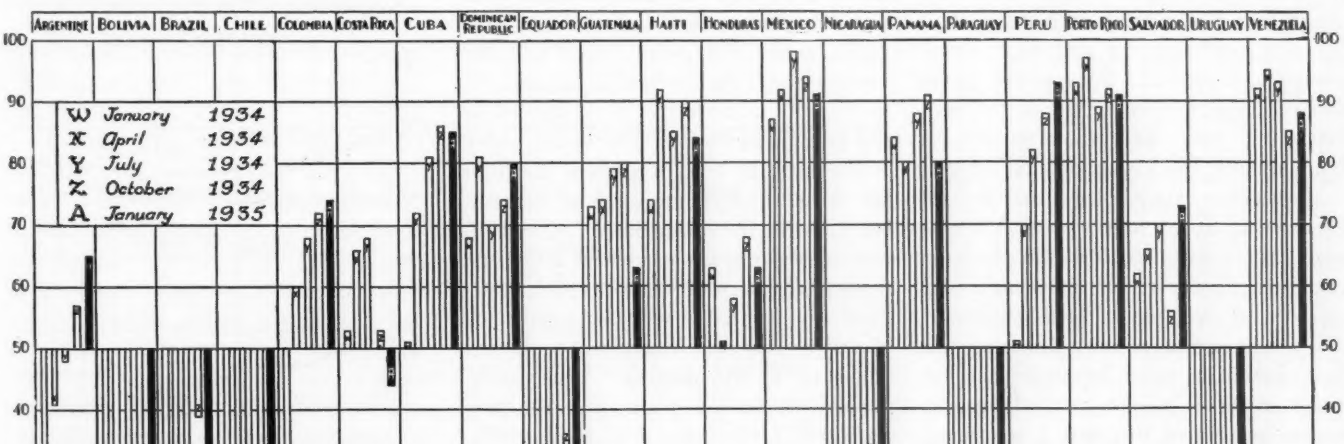
The graphical index for collection conditions gives a comparison between the closing quarter of 1934 and that of the year previous. A most marked improvement has been shown in Colombia with a gain of 50 points on the index during the year and substantial gains for Peru, Cuba, Argentina and Salvador. Even for Chile and Ecuador gains have been made from the previous very low points.

Practically no change in the collection index during the past year was shown for such countries as Bolivia, Brazil, Honduras, Mexico, Nicaragua, Panama, Peru, Porto Rico and Venezuela. A slowing up has been noted in collections for Costa Rica and Guatemala.

The results of this survey substantiate the general conclusions reached by those who have attended the fall meetings of the Round Table Conference on Foreign Exchange, Credit, and Collection Problems held every month in New York City. At these meetings it was the general expression of those attending that Latin American credit conditions were showing a decided improvement in many markets and that the outlook for 1935 was definitely better than 1934.

Based upon the trend in the closing quarter of 1934, exporters can enter the new year with a better background of credit in these countries and a likelihood that continued improvement will be shown during the coming year as local economical, political and financial situations become more stable in the various countries and also that collections will become more prompt, particularly as exchange difficulties are gradually solved. During the coming year it is hoped that as a result of various trade agreements and a better stabilization of trade and exchange that we will rebuild and maintain our former satisfactory relations with these important markets.

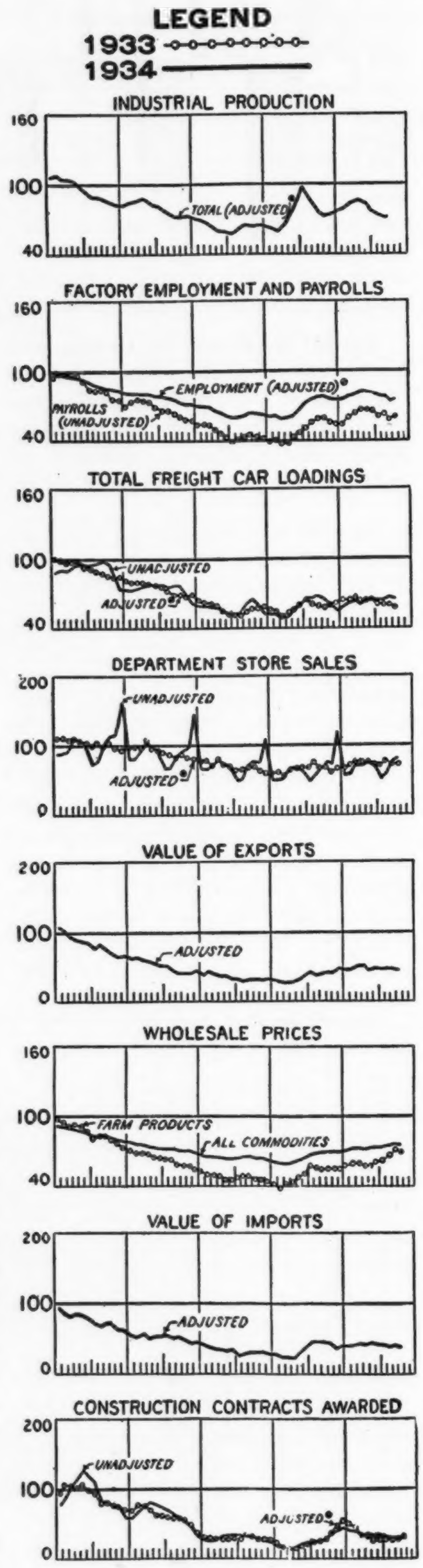
Collection conditions in twenty-one Latin-American countries at five different periods. The scale numbers are based on the percentage of reports of prompt collections for each country in each survey.



The business thermometer:

Department of Commerce charts

1923-25=100



Wholesale price advances, continued increases in retail sales totals, improved prospects for steel production during the first quarter of the new year, enthusiasm among automobile makers over the New Year prospects as indicated at the first of the auto shows; these are some of the indices which seem to mark the start of 1935 as a bit more propitious than last year. While all these indices merged in one chart, give an encouraging picture, there still is little cause for more than slight optimism. Even the indications leading to the brightest improvement spots occasionally show clouds and shadows, and occasionally some recessions.

Steel industry: Possible labor difficulties seems to be the present "fly in the ointment" for the steel industry. Demands upon the large steel making and processing mills by the National Labor Relations Board for their payrolls for use in holding employee elections have been flatly denied in many cases, following the stand made by the Weirton Steel Company. Court battles over these labor arguments loom as a disturbing factor in what otherwise might be termed an improved position for the industry. The rate of production has been advancing weekly for a considerable span and by mid-January was swinging upward from the 45% mark. With the motor car makers just coming into the market for new commitments and with better prospects from such lines as tin plates and railways, the steel men are hinting that 1935 may show their operations again on the black side of the ledgers.

Auto shows active: Mid-month figures indicated an auto production of 300,000 units as against 168,000 for January last year. Motor makers were especially encouraged over the enthusiasm shown at the auto shows, where sales from the floor were far more frequent than in recent years. It will be recalled that the dealers association this year is operating the shows in the various cities and apparently they are making the most of the psychology of these displays to get their live prospects to the shows and make tries for the "name on the dotted line." The figures being talked in the large automobile making centers indicates a production of 3,500,000 units for 1935. This is to be compared with 1,986,000 for 1933 and 2,885,000 for the year just closed. While prospects are bright for more auto unit sales, by far the larger proportion of the sales will be in the class below the $1,000 price. This is the highly competitive division with the margin of profit less than in the range from $1,000 upward.

Railroad car loadings: Reports for the week closing January 12 indicated a total only slightly less than for the corresponding period a year ago. Last year at this time, coal was being rushed out from the mines to meet a special demand caused by a severe cold spell. The western roads show some declines, owing to the effects of the severe drouth but gains in the central and eastern states reflected in movement of manufactured products, offset these losses.

Commodity prices: Commissioner Lubin of the Bureau of Labor Statistics reported as follows on the commodity price situation for the first week in January:

The Bureau's index for the week ending January 5 increased to 77.9 percent of the 1926 average. Compared with a month ago, present prices show an increase of 1.8 percent. When compared with the week ending January 6, 1934, when the index was 71.0, the current index is up by 10 percent. It is 26 percent above two years ago when the index was 61.9. This week's index is one-tenth of 1 percent above the high for the year 1934, the week of September 8, when the index was 77.8, and 10 percent above the low point of 1934, the week of January 6, when the index was 71.0. As compared with the high point of 1933, 71.7 on November 18, the index is up by 8½ percent. When compared with the low point of 1933, 59.6 on March 4, the index is higher by 30¾ percent.

Retail sales: According to figures issued in mid- January by the International Statistical Bureau, Inc., December sales by the larger (*Cont. on page* 41)

Score sheet of collection and sales conditions

State	City	Collections	Sales	State	City	Collections	Sales
Ariz.	Phoenix	Good	Good	N. J.	Newark	Fair	Fair
Ark.	Little Rock	Fair	Fair	N. M.	Albuquerque	Fair	Fair
Calif.	Los Angeles	Good	Good	N. Y.	Albany	Slow	Fair
	Oakland	Good	Good		Binghamton	Fair	Fair
	San Diego	Good	Good		Buffalo	Fair	Fair
	San Francisco	Fair	Good		Elmira	Fair	Fair
Colo.	Denver	Fair	Fair		New York	Fair	Fair
	Pueblo	Fair	Fair		Norwich	Fair	Fair
Conn.	Bridgeport	Good	Good		Rochester	Fair	Good
	Hartford	Good	Good	N. C.	Charlotte	Fair	Fair
	New Haven	Fair	Fair	N. D.	Fargo	Good	Good
D. C.	Washington	Fair	Good		Grand Forks	Fair	Fair
Fla.	Jacksonville	Fair	Fair	Ohio	Cincinnati	Fair	Fair
	Tampa	Fair	Good		Dayton	Fair	Good
Ga.	Atlanta	Fair	Fair		Toledo	Fair	Fair
Idaho	Lewiston	Fair	Fair		Youngstown	Fair	Fair
Ill.	Chicago	Good	Good	Okla.	Oklahoma City	Slow	Slow
	Peoria	Fair	Fair		Tulsa	Slow	Good
	Springfield	Fair	Fair	Pa.	Allentown	Fair	Fair
Ind.	Evansville	Good	Good		Altoona	Slow	Slow
	Fort Wayne	Fair	Slow		Harrisburg	Slow	Fair
	Indianapolis	Good	Good		Johnstown	Fair	Fair
	South Bend	Fair	Fair		Philadelphia	Fair	Fair
	Terre Haute	Fair	Fair	R. I.	Providence	Fair	Fair
Iowa	Burlington	Good	Fair	S. D.	Sioux Falls	Fair	Fair
	Cedar Rapids	Fair	Fair	Tenn.	Chattanooga	Fair	Fair
	Davenport	Fair	Fair		Knoxville	Good	Good
	Des Moines	Good	Fair		Memphis	Good	Fair
	Ottumwa	Fair		Tex.	Austin	Fair	Good
	Sioux City	Slow	Fair		El Paso	Fair	Fair
	Waterloo	Good	Good		Ft. Worth	Good	Good
Kan.	Wichita	Fair	Fair		Houston	Good	Fair
Ky.	Louisville	Good	Fair		San Antonio	Fair	Fair
La.	New Orleans	Good	Good		Waco	Fair	Fair
	Shreveport	Fair	Fair	Utah	Salt Lake City	Fair	Fair
Md.	Baltimore	Fair	Good	Va.	Bristol	Fair	Good
Mass.	Springfield	Slow	Slow		Lynchburg	Good	Good
	Worcester	Good	Good		Norfolk	Good	Good
Mich.	Detroit	Good	Good		Richmond	Good	Good
	Flint	Good	Good		Roanoke	Good	Good
	Grand Rapids	Fair	Fair	Wash.	Bellingham	Fair	Fair
	Jackson	Fair	Fair		Seattle	Fair	Fair
	Kalamazoo	Good	Fair		Spokane	Good	Good
Minn.	Duluth	Fair	Fair		Tacoma	Fair	Fair
	Minneapolis	Good	Good	W. Va.	Bluefield	Fair	Fair
Mo.	Kansas City	Slow	Fair		Charleston	Good	Good
	St. Joseph	Fair	Fair		Clarksburg	Fair	Fair
	St. Louis	Good	Fair		Huntington	Fair	Fair
Mont.	Billings	Fair	Fair		Parkersburg	Fair	Good
	Great Falls	Fair	Fair		Wheeling	Slow	Slow
	Helena	Good	Good	Wis.	Fon du Lac	Fair	Good
Neb.	Omaha	Good	Good		Green Bay	Fair	Fair

Collections and sales comments:

San Francisco, California, reports that prospects are very good for further improvement. . . . Denver, Colorado, stated that the holiday sales were good in the department stores. There has been a slump and falling off since, however, but conditions on the whole look better. . . . Washington, D. C., sees a pronounced trend to cash business in the wholesale lines, with old unpaid items being carried along. . . . The holiday season buying in Tampa, Florida, was good—a considerable increase over last year. Though sales have fallen off somewhat since then, they are still good. Jacksonville says the freeze in December in Florida did considerable damage in the state—still both sales and collections were substantially better than a year ago and prospects ahead look encouraging. . . . Lewiston, Idaho, noted some improvement over November of 1934. . . . From Chicago, Illinois, comes the report that the department stores, retail stores, jobbers and general manufacturers have had good sales volume. The retail sales were exceptionally good during the Christmas season. . . . Evansville, Indiana, declared the retail sales to be substantially improved. . . . South Bend, Indiana, states that a successful culmination of the Studebaker reorganization will mean much to that area. . . . In Davenport, Iowa, the agriculture condition is much improved by reason of better prices for farm products. The implement manufacturing is also much improved for farm machinery. . . . The prospects in Des Moines, Iowa, were good for the first four months. . . . Wichita, Kansas, declares their new accounts to be paying satisfactory but old accounts to be slow. Business, however, for 1934 was better than 1933 but nothing like in 1929. . . . Shreveport, Louisiana, says there is no appreciable change anticipated (*Cont. on page* 42)

Summary

This month:

Collections:		Sales:	
Good	33	Good	37
Fair	62	Fair	61
Slow	9	Slow	5

Last month:

Collections:		Sales:	
Good	28	Good	33
Fair	55	Fair	54
Slow	15	Slow	10

This month's collection letter:

Submitted for the approval of our readers by

O. J. LOGAN, J. A. Deknatel & Son, Inc., Queens Village, N. Y.

Gentlemen:—

On this bright and cheerful June day—I just don't feel like writing you a dunning letter. Just look at the enclosed June 1st statement.

Now I'm going out and hit the ball around the green, knowing that your fairness will prompt you to send us what you can.

Thanks for the help you will give us.

Yours very truly,

J. A. DEKNATEL & SON, INC.

P.S. If you want to tell us anything—jot it down below.

"The clientele (hospitals) with which we do most of our business consists of a class group that depends almost wholly upon public donations and subscriptions for the maintenance of its institutions. Naturally the hard-boiled and usual collection methods cannot be pursued," Mr. Logan points out in submitting to the readers of "Credit and Financial Management" one of his successful collection letters.

"When it came time for us to approach some of our clients around the first of June we decided to try a short, unusual collection letter. The results have been most gratifying and we thought perhaps you would like a copy of the letter and take pleasure in enclosing one for your files."

Credit and Financial Management is desirous of receiving successful collection letters from its readers. One of these is published each month. The letters presented may be of any type; the one important requirement being that they have proven successful in actual credit department operations.

Supplementary to your collection letter efforts, there should be reliance on Credit Interchange reports. With Credit Interchange reports before you on each of your accounts, you will attain maximum effectiveness in using the collection letters presented here.

Paging the new books

Reviews of the important books on business, to aid executives whose reading hours are limited.

This month's business book

Bureaucracy's record

GOVERNMENT EXPERIMENTATION IN BUSINESS. By Warren M. Persons. John Wiley & Sons, New York. $2.50.

In this compilation of the efforts of our national and state governments to indulge in business affairs of one kind and another, Dr. Persons has found a fruitful field that is of absorbing interest to those who are watching with approval or trepidation the efforts of the present administration in the field of social and business planning.

Certainly as far as the tradition of experimentation by Government in business affairs is concerned, the New Deal experiment has a long historical background extending back to the canal-building boom in the early part of the Nineteenth Century. Notable among these states project was the Erie Canal, conceived, built and operated by the State of New York, which in half a century was declared to have equal construction costs, although these figures have been disputed by some authorities.

But while the Erie Canal was an outstanding example, almost every state then in the Union contributed its share of this type of effort. Most of the aternments from building railroads a generation later. Here again many of the projects were complete or partial failures.

In the field of banking, there were did not prevent the various State govtempts were not very successful, but that established a century and a quarter ago state banks in 12 states with capital contributed in whole or in part from funds obtained by the sale of land, or from the proceeds of state bond issues. But the depressions of 1837 and 1857 wiped out most of these state banking institutions.

Not only the state governments, but the federal government also has been interested in the type of work outlined in the previous paragraph. The Credit Mobilier and a series of other scandals, major and minor, followed the entrance of the Federal Government into railroad building following the Civil War.

Reclamation of land, agricultural loans, ship construction, railroad operations are other ventures of the federal government that were none too successful and far from reaching the expectations claimed by the sponsors at their inception.

In general, Dr. Persons puts his finger on political domination and interference as a fundamental cause of the failure of government in business. But other factors such as mismanagement, lack of foresight, and various kinds of corruption also had their hand in these defeats. —P. H.

FEDERAL TAX COURSE, Prentice-Hall, Inc. New York. 500 large pages in loose leaf binder, $10.

As its name suggests this book affords a complete course in the mysteries of Federal income tax procedure. At about this time of year every financial officer begins to have bad dreams about the income tax return he must make out for his company. As business book publishers, Prentice-Hall, Inc. doubtless had calls from many of these harassed financial officers to please "rush the best book you have on income tax problems." The FEDERAL TAX COURSE just issued by this company is in answer to these thousands of requests for help.

The new book is based entirely upon the 1934 Federal Tax law and is up to date in that it gives the rules and regulations of the Treasury Department down to the first of January as they apply to the interpretation of the new law.

The course is divided into six parts, each section is separated by tab cards so that the reader may turn promptly to the section needed for any sort of a reference.

The first section gives a digest of the income tax law. This digest is so arranged with cross references to the law text and to the rules and regulations that the student finds it quite simple to direct his own program of study. In fact the editors have provided a chart covering 28 reading assignments, each one of which could be easily covered during one evening's reading. These reading assignments are backed up by 295 practical problems which the reader is expected to solve for himself as a part of his assignment. However the answers to each problem are quite clearly set forth in another division of the book, just as we were wont to turn to the rear of the algebra for the correct answer to our problems in school—(and we have a recollection that dear teacher had such a "correct answer" section in her arithmetic book).

In one of the prosecutions of alleged income tax evasion it was brought out that the Treasury Department desires that every tax-payer take advantage of every deduction possible. It was pointed out however that it was not Uncle Sam's job to call attention to these possible deductions. Perhaps this is one of the main reasons for so many income tax nightmares at this season of the year. Of course we all want to pay our Uncle Sam every penny due him, but most of us are averse to paying one red cent more than due. We would say that the editors of the Prentice-Hall course had just this situation in mind for they have stressed in each problem all the items which may be set down as deductions.

But few people are worthy of being classed as real experts in income tax law and regulations, but after a perusal of this Prentice-Hall course we venture the guess that experts are not needed in a great percentage of cases. All the expert is, is an individual who knows a lot about income tax procedure. The student of this course certainly could be classed as an expert also because he will know where to turn to find an easily understood answer to practically any income tax question.

One word about the price of the book. It would seem to be a bargain at half the price. The saving possibility from one or two of those "deductions" mentioned above might show the ten dollar bill price of the book, as a real dividend rather than an expense item.

R. G. T.

Protect 1935 Profits with Credit Interchange Reports

One down–one to go

An elusive individual, who has plagued credit men in various parts of the nation over a long period of years, has stubbed his toe. He is charged with passing "bogus" checks and, as a result of his activities in California, his career has been temporarily halted.

Right now Earnest M. Flexner, Paul Whiteman, Charles Berkowitz, C. A. Soto, F. Canoza Cresto Hijo, just to mention a few of the aliases, has eight defrauded concerns clamoring for justice in connection with his activities and is lodged in a Chicago jail.

He is reported to have been deported before—to Hungary in 1917 and to Cuba in 1926 after he is believed to have reentered the United States in 1921 through Mexico.

A long train of closely-related circumstances are responsible for Flexner's present predicament. The Willard Battery Company, with offices in Chicago, Cleveland and Los Angeles, gets the credit for actually putting the finger of the law on him. Flexner was arrested late in December after he had been recognized by the telephone operator and others of the office personnel of the Willard's Los Angeles branch. They had been warned previously to be on the look-out.

The cry for Flexner's apprehension came about because numerous firms in various parts of Illinois, Ohio and California reported that they had been defrauded by this man. In the December issue of the Monthly News Bulletin of The Chicago Association of Credit Men, at the request of several victimized firms, were published two pictures of the man known as Flexner and a description of his working habits with a warning to "Beware!"

After his arrest in Los Angeles, negotiations were begun to bring him back to Chicago by The Chicago Association of Credit Men, its Foreign Credits Division, and the Fraud Prevention Department of the N. A. C. M., which cooperated fully with Chicago authorities.

At present writing he is held by Chicago authorities, in lieu of his producing a bail bond of $12,000, on eight counts in the Cook County jail.

The Money—

Your customers have is Capital. Getting it away from them is Labor.

—Paul A. Barkuloo

From Philadelphia, Samuel Ardron, Secretary of the Credit Men's Association of Eastern Pennsylvania, sends us word that one of his members has reported to him that the member's firm, which has branches in various parts of the country, has had trouble with an individual who operates by reverting to schemes to secure money by posing as the employee of a particular company.

On a poor representation of a corporation's check, he signs himself with various names but usually as cashier of the company. The system of obtaining money is to make a purchase to be delivered at a fictitious address, this purchase being in a sizeable amount, in the case mentioned being about $15, whereupon the goods are left at the establishment for delivery in regular manner and change for the check secured in cash.

Apparently the same person has passed several of these checks for he has been rather uniformly described in each case as being a man rather tall, well built, fluent talking and well dressed.

Recently two checks were passed in St. Louis and shortly thereafter two more were passed in Houston, Texas. From that it would appear that the individual is working his way South and West. But the warning is given that he may be working his way East or North in the near future.

Generally the checks are drawn on a non-existent bank, one of these being the "Union Bank of Kansas City, Missouri" which, as a matter of fact, does not exist.

Men give me credit for some genius. All the genius I have lies in this: When I have a subject in hand, I study it profoundly. Day and night it is before me. My mind becomes pervaded with it. Then the effort which I have made is what people are pleased to call the fruit of genius. It is the fruit of labor and thought.—*Alexander Hamilton.*

The Referee in Bankruptcy: "When you arranged for that credit you said you and your partner had $100,000 between you. Was that statement true?"

The Bankrupt: "Sure, it was true. I lived on one side of the Local Trust and Savings Bank and he lived on the other."

A poor unfortunate

by Frank L. Stanton

I

His horse went dead an' his mule went lame;
He lost six cows in a poker game.
A harricane came on a summer's day,
An' carried the house whar he lived away;
Then a aithquake came when he wuz gone,
An' swallered the lan' that the house stood on:
An' the tax collector he came roun'
An' charged him up fer the hole in the groun',
An' the city marshall—he come in view,
An' said he wanted his street tax, too!

II

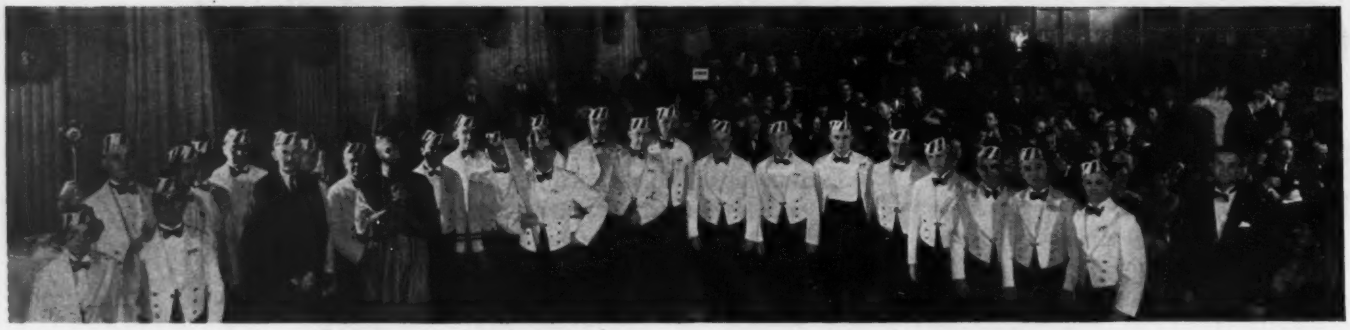
Did he moan an' sigh? Did he set an' cry,
An' cuss the harricane sweepin' by?
Did he grieve that his ol' friends failed to call
When the airthquake came and swallered all?
Never a word of blame he said,
With all them troubles on top his head!
Not him. . . . He climbed to the top o' the hill,
Whar standin' room was left him still,
An', barin' his head, here's what he said:
"I reckon it's time to get up an' git,
But, Lord, I hain't had the measles yit."

No depression in consumption

If you're looking for evidences of depression during the past five years, don't look at the indices of consumption of food between 1929 and 1934. According to Fletcher H. Rawls, Chief of the Foodstuffs Division of the Department of Commerce, in addition to the foodstuffs produced in the United States, we imported a little more than $1,000,000,000 worth in 1929, and about $500,000,000 worth in 1933, a falling off of 49 per cent.

But this decrease in dollar value of food imports is more than half accounted for by the decline in food prices. The decline in imports of foodstuffs was considerably less than the corresponding decrease in our total import trade which amounted to 67 per cent from 1929 to 1933.

The Bureau of Labor Statistics Index of Retail Food Prices, using 1913 as a basis, declined from the 1929 average of 156.7 to the 1933 average of 99.7. This drop of 36.4 per cent during that four-year period re- (*Cont. on page* 30)



Eastward the course of the Zebra takes its way. Not so many moons ago, the Zebra (genus white jackets, species white and black striped hat) was found mainly along the Pacific coast and at some point inland from that coast. Now the Zebras are spreading. Next month we hope to present an article telling about the Zebras, what they are, how many there are, and where they are found at present. Here is a group located in St. Louis by the St. Louis Association of Credit Men and brought to its Christmas party in December. Picking out just a few of them from left to right, we find the man in the dark suit with the Zebra hat to be Executive Manager Heimann. Orville Livingston, St. Louis Secretary Manager, is the second man to his left. The man holding the paddle is W. R. Harris, Credit Manager of Falstaff Corporation and a Director of the St. Louis Association. The man holding the rope is V. C. Eggerding, Credit Manager of the Brown Supply Company. Standing immediately behind the paddle, which covers a small portion of his face, is Harvey L. Welch, National Director. Standing behind and immediately to the left of Mr. Eggerding is O. S. Dietz, Senior Vice-President of the St. Louis Association. The sixth man from the right end of the line is Roy Colliton, Director of the Central Credit Interchange Bureau in St. Louis.

40 new members in six months!

Approaching a record, if it is not actually a record in itself, is the work of Francis R. Landau, of Crompton-Richmond Company, Inc., New York, who heads the distinguished honor roll recently posted by William S. Egelhofer of Henry Glass & Company, Chairman of the Membership Committee of the New York Credit Men's Association.

Since July 1, 1934, Mr. Landau has brought forty new members into the association, accounting for almost half of the entire number of 103 new members submitted to the Board of Directors at its last meeting. This was the greatest monthly membership advance in the association since 1930. Chairman Egelhofer is in second place with twenty-seven new members and Harry J. Delaney of Meinhard, Greeff and Company is a close third with twenty.

George W. Pierson of the Eighth Avenue Branch of The Manufacturers Trust Company is fourth with fourteen, and others among the leaders are Maurice E. Bretzfield, 13; William H. Schmidt, 10; Helen A. Maycrink, 6; C. L. Riegel, 4; G. P. Thom, 4; August F. Weiss, 4; Eugene F. Mader, 3; Jane Sweaf, 3; Theodore B. Luse, Louis Oresman and Jack Perl, with 2 each.

Considerable impetus to the membership campaign was given by the work of members of the Downtown Textile Credit Group, of which Mr. Egelhofer is president. Active cooperation was also given by members of the Uptown Credit Group, an affiliated association of the National Federation of Textiles, Inc.

No depression in consumption

(*Cont. from p. 29*) veals the lower prices the consumer pays for food. Recently it stood at 115.3. The significance of these figures lies in the fact that the decline in dollar sales over the same period was only slightly greater than this fall in price, indicating little, if any, change in the actual quantity of food consumed. Undoubtedly, Mr. Rawls points out, there were some shifts from higher to lower priced foods.

A recent Census Bureau release for 1933 shows that the food group of stores, which numbered 482,000 in 1929 decreased to 472,000 in 1933 and dollars and cents sales declined 37 per cent. Total retail sales of all products declined 49 per cent and consequently there was an increase in the ratio between food stores' sales and all retail sales from 22 per cent in 1929 to slightly more than 27 per cent in 1933.

Magistrate: "I cannot understand you—you admit murdering this poor old woman for a paltry half a crown!"

Prisoner: "Well, Guv'nor, half a crown here and half a crown there—it soon mounts up, yer know!"

Domestic marketing

A number of significant projects designed to give American business more complete information on domestic marketing are being undertaken by the reorganized Marketing Research and Service Division of the Bureau of Foreign and Domestic Commerce, it was announced recently by N. H. Engel, Assistant Director of the Bureau.

Valuable new data are expected to be developed under the program about the terms of consumer buying through retail stores, the cost and processes involved in getting goods from the producers to the consumers, the needs and buying habits of consumers, and the cooperative activities of industries through trade associations.

The projects included in the Bureau's new program follow, as closely as the present staff will permit, the recommendations made in the recent report of the Committee on the Elimination of Waste in Distribution of the Business Advisory and Planning Council for the Department of Commerce.

This committee recommended that "domestic distribution research be centered in and headed up by the Division of Marketing Research and Service" and made specific suggestions as to the projects which should be undertaken.

Bix: "I have nothing. Thank heaven, no one can have less than that."

Dix: "Oh, I don't know; I have an overdrawn bank account."

37th Annual Statement, December 31, 1934

MARYLAND CASUALTY COMPANY

Baltimore

ASSETS

Cash in Banks and Offices		$ 1,990,690.80
U. S. Government and Government Guaranteed Obligations*		9,768,019.75
Other Bonds and Stocks*		12,920,871.44
Premiums in Course of Collection	4,382,055.69	
Less premiums due more than ninety days	391,695.22	3,990,360.47
Real Estate		
Home Office Buildings	2,545,735.42	
Philadelphia Office Buildings	761,839.34	
Other	153,758.96	3,461,333.72
First Mortgages on Real Estate		1,116,645.67
Collateral Loans		439,791.93
Reinsured Losses due from Other Companies		460,345.79
Salvage Recoverable		750,137.56
Interest Accrued		51,893.17
		$34,950,090.30

LIABILITIES

Reserve for Unearned Premiums		$ 8,952,904.22
Reserve for Unpaid Claims, Adjusted and Unadjusted		15,650,390.34
Reserve for Commissions		807,874.03
Reserve for Expenses and Taxes		516,593.22
Reserve for Reinsurance unauthorized		51,506.82
Real Estate Depreciation		683,788.56
Funds held under Reinsurance Treaties		186,249.03
Partial Payments received on Unissued Preferred Stock		251,021.68
Reserve for Accumulated Dividends on Preferred Stock		341,666.67
Special Voluntary Reserve		600,000.00
Capital:		
1st Convertible Preferred Stock Series A**	1,000,000.00	
1st Convertible Preferred Stock Series B**	1,000,000.00	
Junior Convertible Preferred Series B Stock†	137,408.00	
Common Stock	508,792.00	
Surplus	4,261,895.73	
SURPLUS TO POLICYHOLDERS		**6,908,095.73**
		$34,950,090.30

Securities carried at $2,598,894.52 in the above Statement are deposited with various governmental departments to comply with insurance laws.

* Amortized values on bonds amortizable in accordance with Resolution adopted by the National Convention of Insurance Commissioners December, 1934; market values on all other bonds and stocks, except those of wholly-owned subsidiaries, which latter are carried at appraised or market values of underlying assets.

** First Convertible Preferred Stock, Series A, represents one million shares, $1.00 par, issued at $10.00 per share and redeemable at the option of the Company at the same price and entitled to dividends at the rate of 50 cents per share per annum. First Convertible Preferred Stock, Series B, represents one million shares, $1.00 par, issued at $7.50 per share and redeemable at the option of the Company at the same price and entitled to dividends at the rate of 37½ cents per share per annum.

† 299,343 shares of Junior Convertible Preferred Series A and B Stock have been subscribed for at $2.00 per share, of which 137,408 shares of Series B Stock have been paid for in full and issued. This stock has a par value of $1.00, is issued or subscribed for at $2.00 per share and is retirable at the option of the Company at the same price and is entitled to dividends at the rate of 12 cents per share.

Total Claims Paid Since Organization $289,421,450.85

In the modern office

An idea and experience exchange on equipment, system and management in the modern credit and business office.

Magazine and pamphlet binder

The Brosure Binder Company, West Webster, New York, has perfected a new type binder for all kinds of paper covered books and magazines. The binder has no straps or rings. Contents do not have to be perforated. When open, pages of bound material lie flat like any book. Any magazine or booklet may be quickly removed without disturbing other material in the binder.

Various sizes are available. Bindings are in black, blue, red or green fabrikoid. This department has examined the binder and found the insertion and removal of material extremely simple. Seems an excellent low-cost device for filing all paper covered pamphlets, government reports, small catalogues, etc. Full details may be had from the manufacturer.

Transcribing machines

How effective is dictating and transcribing eqipment for the small department? Recently three one-man departments of a national organization were placed on a completely mechanized basis. While the work of each executive is related, each one's correspondence is of a markedly different type. Formerly, two stenographers tried to serve the three men. There was considerable confusion. Work was delayed. All executives were dissatisfied.

A dictating machine was installed for each executive. Now a single stenographer handles the work of all three men, without overtime. The second stenographer has been transferred to another department where she is needed. Apart from increased efficiency in production, both stenographic and executive nerves have relaxed. Tension has been banished. Office managers who think some department "too small" to benefit from dictating and transcribing equipment may draw their own conclusions from this experience.

Irrelevant anecdote

The Great Expert and Efficiency Man was stamping some papers with a hand numbering machine. Something stuck. The machine would not work. The Great Expert confidently poked at the jigger's interior. But nothing happened. The G. E. became annoyed. It is reported that he muttered an oath beneath his breath.

Joe, the office putterer, stood by. Taking the machine, he glanced at it, made one simple adjustment and returned the numberer to the G. E. The Expert did not continue numbering. He returned to his office to work out plans for completely mechanizing a large concern.

This and that!

Design Patent No. 93,736 has just been granted on an air cooled penholder. For writers of tales that sizzle? Or to cool the hand that writes a hot collection letter? It has us baffled. . . . General Ink is a new product. Comes in a very snooty ridged bottle with a chromium plated cap and an aluminum foil label. After ink is used the bottle makes a handy cocktail shaker or lamp base (may also be used for milk shakes or just plain water). Accessories necessary for conversion of inkwell into cocktail shaker are furnished by the manufacturer for only twenty cents in stamps. . . . We are amazed. . . . Heyer Corporation announces Plastic type cleaner. . . . Press the cleaner on your typewriter keys. Lift it off and keys are clean. . . . Sort of a typewriter key mud pack. . . . No odor. No chemicals harmful to machine's parts.

The Kensington Topprinted Stencil has the form printed on the stencil rather than on the backing sheet. Line numbers are all plainly in view of operator typing stencil. Form and figures are printed in white on blue stencils and blue on white stencils. It is claimed that ink will not offset on platen of typewriters. . . . Not exactly new, but decidedly convenient, is the Acme Da-Log, a combined diary and desk calendar with a visible index principle. Met it in a friend's office. Said he: "Bought it two years ago to get rid of salesman. Find it handiest accessory I have." Seemed to us highly useful item for keeping track of appointments, telephones, addresses, etc. . . . In fact, we placed it on our Christmas List . . . but S. Claus had weak eyesight and a heart of steel. —H. P. P.

Are we causing a huge racket?

(*Cont. from p.* 11) receiver sold the assets to the same creditor for about $20,000 less than was offered to the creditors' committee. One of the three claimants joining in the petition was a plumber with a claim for one dollar and one dollar was paid for his claim so that three claims might be obtained.

The old days of cut-throat credit competition are rapidly passing. Individualistic credit policy must bear its part of the responsibility for the depression. But now we find voluntary collective credit rules governing many industries. You may not like some of them, but they are the result of necessity, and, in my opinion, they are here to stay. If all credit executives were equally honest and fair, and if no one sought to take advantage of another, rules would not be necessary. But human nature is frail and selfish and the greed for business often overrides the desire for fair play. Those who are inclined to chisel must be restrained, and the collective force of the industry must do the restraining.

There has been wonderful progress made in the matter of credit management. It is probably like "carrying coals to Newcastle" to even mention them here. Perhaps the most valuable thing the National Association of Credit Men is doing is doctoring sick businesses. I do not know the technical name for it. But I understand that there is a department of the Association which undertakes to make investigations of failing businesses, with the idea of ascertaining the causes underlying their failure, whether it be location, management, help, lack of financing, or what not, and if possible to nurse them back to life. I understand that many businesses are being saved in this way. It is a wonderful thing for the merchant to be able to call in, without expense above actual cost, experts in his line, have them go through his establishment from cellar to garret and put him on the road to recovery. This service also enables creditors to know whether or not a business can be saved before it is too late and before the assets have been dissipated. You are doing a really constructive work

in this line.

This is the age of organization. We are just beginning to realize that little can be accomplished without it, and that by joining together we can do almost everything. You are experts in your line. You have been trained by education and experience for your profession. You are a very important part of the business life of our country. You occupy places of tremendous responsibility.

BAIRD G. DALLY

Funeral services for Baird G. Dally, Vice-President of the Milwaukee Association of Credit Men, and representing the First Winconsin National Bank, were held on Friday, December 21st. Mr. Dally had been a member of the Milwaukee Association for the past twenty years and on May 25th 1933 was elected to its Board of Directors for a three-year term. On May 17, 1934, he was chosen Vice-President of the Milwaukee organization.

In the death of Mr. Dally, the Milwaukee Association and the National Association of Credit Men have lost a true friend and loyal worker, and we take this means to extend to the family and his business associates the heartfelt sympathy of both organizations. Notice of his death was received too late for our January issue, consequently this belated tribute to another of our departed fellow-workers.

Warm Air Assn's credit program

L. B. Murphy of The Williamson Heater Company, Cincinnati, presented a Credit Service Program to the members of the National Warm Air Heating and Air Conditioning Association at their Annual Convention held in Pittsburgh. As chairman of the industry credit committee responsible for this program, Mr. Murphy is to be complimented not only upon the excellence of the plan itself but on the presentation to his associates in the industry.

The credit program was endorsed and approved by the Board of Directors of the Association and was very well received by the Convention generally. The program embodies the consistent use of the Credit Interchange Service of the National Association of Credit Men, and as supplementary features includes an annual consolidated report of charge off accounts, an annual statistical report of bad debt losses, and a flash system to cover all extraordinary experiences with debtors.

Notes About Credit Matters

War debts are dead, Spurrier says

In the highly interesting "Creditalk" issued every Tuesday morning by the Wichita Association of Credit Men, Stanley Spurrier has some interesting observations on the War Debt situation:

"The American Government," he points out, "has sent to Great Britain, France and other European debtors, formal notices of War Debt installments due to the United States on December 15th. If the credit executive of any successful American commercial institution wasted his time and energy on efforts to collect debts which are as dead as these War Debts, he would be fired for incompetency—and deservedly so.

"These debts are not only dead now, but have been dead ever since they were created, and everyone who has any intelligent understanding of international finance, a knowledge of what is necessary to accomplish international transfer, knows that this is true—the ravings of Senator Borah and some other of the politicians to the contrary notwithstanding.

"Not that the debts were not justly created. These nations purchased goods from American institutions and for payment arranged huge credits with the United States Government, probably promising that they would pay the debt and interest in gold. If a man is starving or bleeding to death, he will make any promise necessary in order to obtain food, clothing and shelter!

"The difficulty is that we are now, and have from the beginning, demanded payment in gold, as the debtors promised. But if the debtors could have by hook or crook, foul means or fair, obtained all the monetary gold in the world (outside of what the United States already had), there would not have been enough to pay us.

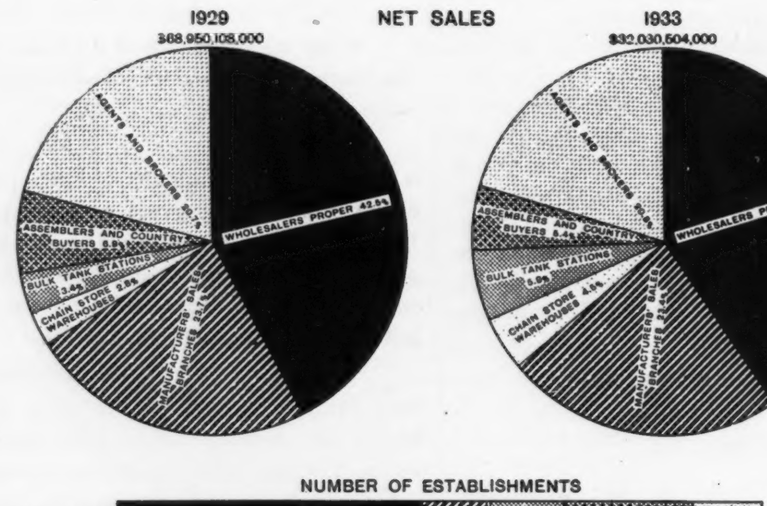
"Yes, the War Debts are dead, but the debt of the United States government, which was created to make possible the War Debts, is very much alive, and the American taxpayer, you and I, will pay it. I don't like the idea any better than you do—but it is utterly silly to shut your eyes to the plain facts.

"Maybe next time we will check the possibility of payment more carefully before we make the sale."

Census of business

Three sets of final summaries have been issued by the Bureau of the Census in connection with the Census of American Business, taken during the current year and recording operations in 1933. These summaries include sales of wholesale, retail and service establishments, for the United States as a whole, and, except for the last named, permit comparisons with 1929. Service establishments were not included in 1929.

WHOLESALE TRADE, BY TYPE OF ESTABLISHMENT



FROM THE FINAL UNITED STATES SUMMARY OF WHOLESALE TRADE IN 1933 BY THE CENSUS BUREAU.

An average of 1,094,878 wage earners were employed on a full-time basis by a total of 164,101 wholesale establishments during 1933. These establishments reported net sales of $2,966,699,000 and a total payroll of $1,710,441,000, of which $59,804,000 was paid to part-time employees. Sales are shown for types of establishment and kinds of business.

The retail report shows that sales of $25,037,225,000 were reported by 1,526,119 retail stores in the United States for 1933. These stores employed an average of 2,703,325 full-time and 730,327 part-time employees, with total payroll of $2,910,445,000. The report shows the changes occurring in employment, average annual earnings and other factors between 1929 and 1933. Sales for various kinds of retail business are shown.

The Summary of Service Establishments includes those giving personal service, business service, mechanical repair service, and miscellaneous service; amusements, theaters, and year-round and seasonal hotels. There were 502,416 such establishments, and their total receipts amounted to $2,760,881,000 in 1933. See charts on pages 184, 186 and 188.

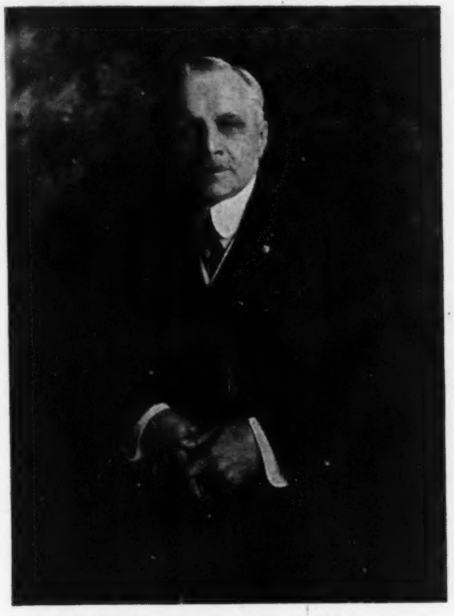
Copies of the three summaries are available from the Bureau of the Census.

Obituary

We wish to take this means of extending our sympathy to both National Director Dana W. Norris of Syracuse, New York and former National Director Walter E. Tarlton of St. Louis, Mo., on the occasion of deaths in their immediate family.

Mr. Norris suffered the loss of his daughter and Mr. Tarlton is bereaved because of the death of Mrs. Tarlton. Unfortunately, we were unable to carry this notice in the January issue because our closing date was advanced somewhat in December because of the holiday season.

Credit careers



Walter L. Kauffman

One of the most ardent supporters of the National Association of Credit Men, and the Youngstown, Ohio, Association of Credit Men of which he is a member, is Walter L. Kauffman. He attended his first convention in 1909 at Philadelphia. Since then he has missed only the most distant conventions namely; New Orleans in 1910; Minneapolis in 1911; Salt Lake City in 1915; San Francisco in 1921; Seattle in 1928; Dallas in 1930; and Los Angeles in 1934. In all, his attendance includes nineteen National Conventions.

Recently Robert Batman, special writer for the Youngstown Telegram, wrote a feature article for his newspaper about Mr. Kauffman and his years of activity in connection with his work. The following paragraphs are taken from this excellent account:

Offices of the Youngstown Sheet & Tube Co. in the Stambaugh building are closed on Saturday. Typewriters, adding machines and telephones are silent, the corridors deserted. Only a few officials ponder over papers at their desks. One of those to be found there most every Saturday morning arriving only a little later than his usual hour of 8 a. m. is Walter L. Kauffman, credit manager.

Mr. Kauffman, who is in his 70's, is one of that comparatively small group of Youngstown men who have lived more than three score and 10 years, who still are active, still factors in the business of professional world in which they have seen many changes in the years they have had their part in affairs.

But the change doesn't seem so great to Mr. Kauffman.

"Business is broader-gauged now. There is more of a spirit of cooperation, less fierce and bitter competition.

"It used to be that when a firm had trouble collecting from a purchaser, it would simply quit selling him and let a competitor get the business and get stuck.

"Now manufacturers and merchants cooperate and help their competitors to escape losses by exchanging all the information they have about customers. It isn't the 'dog eat dog' proposition it formerly was."

Mr. Kauffman came to Youngstown in the spring of 1886 as manager of the first pipe plant in Youngstown—the forerunner of the pipe industry there which now gives thousands of men work in normal times. He was born in Mechanicsburg, Pa. His father was a banker. For several years before his graduation from Dickinson College, Pa., he worked as an apprentice printer in a newspaper office at Mechanicsburg.

In 1882, just out of college, he started work in the office of the American Tube & Iron Co., Middletown, Pa. It was that company which sent him to Youngstown as manager of its new plant just four years later.

"Later the National Tube Co. abandoned its Youngstown plant, tearing it down, and as I didn't want to move away from Youngstown I became connected with the Youngstown Sheet & Tube Co. in June, 1909, under Richard L. Garlick in the treasury department," Mr. Kauffman said.

He was reluctant to talk about his many years with Sheet & Tube.

"But they've been pleasant years," he said. "I've worked for and with many fine, big men."

Mr. Kauffman has always been active in club life and was one of the founders of the Youngstown club and the old Mahoning Golf club, now the Youngstown Country club.

Motoring and the radio are his principal hobbies. Recently a dog, "just a dog," has "adopted" him. Apparently injured by an automobile, it dragged itself to the back door. No owner appeared to claim it after two weeks' advertising, so "Bozo" is a regular member of the household now.

What advice would he give to a young man starting to work in an office now as he did 52 years ago?

"Just work hard and learn to do everything, not just your own job," he said as he lighted a cigaret and gazed from his eighth-floor window over Central Square.

"It's the young man who learns how to do everything, the job below as well as the job above, that gets ahead. Study all phases, everything about making and the selling of your company's product and work hard . . . And as the years go by success will come."

Wholesale credit in Buffalo

There was a favorable decrease in the ratio of overdue to outstanding accounts of 22 wholesale concerns in the Buffalo area from 18.8% on December 1, 1934 to 16.7% on January 1, 1935. This ratio (16.7%) is the lowest in our records of four years, the Bureau of Business and Social Research of the University of Buffalo reports.

The same tendency was not present in the food group, where a rise in the ratio from 24.8% on December 1, 1934 to 25.5% on January 1, 1935 occurred, but the current ratio was less than the 32.6% ratio of January 1, 1934.

T. J. Kenny again heads Paint Group

Mr. T. J. Kenny of Devoe & Raynolds Company, Inc., Brooklyn, has again been appointed chairman of the credits and collections committee of the National Paint Varnish and Lacquer Association.

Mr. F. J. Hamerin of Lilly Varnish Company, Indianapolis, a director of the National Association of Credit Men, has a place on the same committee, which also includes Charles W. Brown, Gould & Culter Corporation, Boston; W. A. Currie, Moore-Handley Hardware Company, Birmingham; B. G. McFadden, Pratt & Lambert, Inc., Buffalo; C. H. Sondhaus, National Lead Company, San Francisco; and E. N. Ronnau, Cook Paint & Varnish Company, Kansas City.

Through the efforts of the credits and collections committee over a period of years a very comprehensive credit program embracing both the trade and industrial sales divisions of the industry has been presented to the members of the National Paint Varnish and Lacquer Association and is rapidly being adopted on a national scale. It is hoped that with the continued good work of its credits and collections committee the National Paint Varnish and Lacquer Association's Credit Program will attain really representative coverage nationally during 1935.

They tell of a young married artist who has a predilection for talking in his sleep. Several times recently he mentioned the name "Irene," and his spouse questioned him about it.

"Oh, that," said he, thinking fast, "is the name of a horse."

Several days later when he came home he asked his wife the news of the day. "Nothing happened," she said, "except your horse called you up twice."

Credit side of factoring

(*Cont. from p.* 17) at all times, endeavors to keep in mind that it is, in fact, nothing else but the credit department of the various concerns to whom it renders a factoring service, and, therefore, it has always been the endeavor of the factor's credit men to understand fully the financial problems of the customer as well as the sales angle of the mills.

Development of factoring and the establishment of this service in industry is after all merely a logical development in trade. In our so-called era of mass-production we find many manufacturers "farming out" the making of parts. Some make a line of products which are sold by other companies, the maker taking his profit at the factory door while the other company gets its profit from the selling operations. We have come to look upon the general operations of industry as being divided into three general divisions: (1) manufacture, (2) sales, (3) credits and collections.

In the foregoing I have tried to show how the factor assumes the credit and collection division and also operates in an advisory capacity in financial matters. While originating in the textile business there is no reason why other industries, whose distribution depends largely upon credit extension, could not find the services of a factor profitable and useful and, as a matter of fact, other fields are gradually opening up to this specialized financial service.

Legislative outlook

(*Cont. from page* 9) extended, probably by $1,000,000,000. Refusal of the HOLC to take new applications for home refinancing because applications on file will exhaust its original loaning power of $2,200,000,000 raised a storm of protest, to which Congressmen immediately reacted in promising a continuation of this agency. There is much disappointment in Congress over a lack of results from the home mortgage insurance plan of the Federal Housing Administration. Much of this is due to a misunderstanding of the FHA and an expectation that it would foster low home financing charges and lower construction costs, and launch a home building boom.

Some banking legislation is in prospect, but the Administration will pretty much dictate its form. Advocates of various forms of a government-owned central bank, or a federal monetary authority, introduced their bills early in the session. At the other extreme a small group of conservatives sought to reduce the present power of the government over the Federal Reserve System and banking generally. Between these two opposite factions the Administration will find support for a middle course program which will give it comparatively little more power, but sufficient to round out that already possessed so that the government will have about all the important power over banking and credit it could have under a central bank scheme. Reserve Board power over personnel of reserve banks and over their open market operations are the only changes looked for in the Federal Reserve System.

Pending a decision by the Administration on the proposal to merge the Federal Deposit Insurance Deposit Corporation with the office of the Comptroller of the Currency, the only legislation in sight for FDIC would give the corporation power to fix interest rates on time deposits in insured banks not members of the Federal Reserve System; amend the permanent insurance plan to cover individual deposits only up to $5,000; remove the unlimited liability of banks for assessments to cover losses; and set up an annual, proportionate premium charge for insured banks based on actuarial forecasts of losses.

Continuation of the Reconstruction Finance Corporation for another two years was on the immediate program, as the RFC's lending power would have expired on February 1. No new funds were expected to be needed by the RFC as collections are scheduled to keep the revolving fund high enough to meet all new requirements.

Bankruptcy legislation is problematical at this stage of the session. There is the usual demand for greater easing of farm debt, but a Supreme Court decision on the Frazier-Lempke farm moratorium act will precede further legislation.

Football, they find, was invented in medieval England, by soldiers kicking a skull. In this enlightened age, of course, the skull is no longer detached.

Barber: "Shall I trim you a bit?"

Grocer: "You might as well. . . . I'm a father and it's Christmas and everybody's doing it."

Saving orders

(*Continued from page* 10) when consideration is given the volume of cash in advance business we do. I cannot recall having charged one of these checks to Bad Debts at the end of the year.

Should we fail to secure a response to our first letter we don't let the matter drop. Two follow up letters are employed reading as follows:

The Second Letter

"After we decide on what basis an order from a customer can be handled we lose no time in making shipment, however, when we require Cash in Advance the shipping date is influenced by the promptness with which remittance is received from the customer.

On December 7, we wrote you for your remittance of $10.98 to cover your order of December 1. It has not as yet reached us. Will you see that it is sent at once so shipment can be scheduled in our factory.

Very truly yours,

P. S.—You may have delivery made on a C. O.D. basis if you prefer."

The Third Letter

"We were confident that a prompt answer would be received to our latest letter dated December 17, addressed you in regard to the order placed with us for glassware under date of December 1, and for which we sent an invoice in advance of shipment for your convenience in making remittance.

The fact that you placed this order with us would indicate your need for the ware, at least at the time the order was given.

If that need has not as yet been met through other channels, it is our sincere desire to have the opportunity of making delivery of the glassware ordered by you. Its quality speaks for itself.

We would appreciate a reply from you by return mail in the form of a Postal Money Order to cover the order in question. However, if you are not now in need of the glassware, advise us, and we will cancel the order with the hope that we will be able to serve you at a later date.

Very truly yours,

P.S.—Remit only by Postal Money Order. The amount is $10.98."

It is surprising, indeed, how many orders are saved from the waste basket through the use of the second and third letters. The last letter drops the suggestion that shipment can be made on a C. O. D. basis because the customer's inattention to the matter up to that point is an indication that he might be careless regarding business contracts or lack sincerity of intention and fail to take up the shipment on arrival.

Protect 1935 Profits with Credit Interchange Reports

Downstairs—"Didn't you hear me pounding on the ceiling?"

Upstairs—"Oh, that's all right. We were making a lot of noise ourselves."

Distillers' elections

At a recent meeting of the Distillers Division, Mr. L. D. Duncan of The American Medicinal Spirits Company, Louisville, was elected chairman and at the same meeting Mr. J. M. VanderVoort of Seagram-Distillers Corporation, Chicago, was elected chairman of the membership committee. The next meeting of the distillers is scheduled for Chicago about the middle of February and present indications point to a fine attendance at that session.

At the Chicago meeting the distillers approved the credit service plan for their industry. Briefly described this service is based on the Credit Interchange service of the National Association of Credit Men, annual reports of bad debts and charge off accounts, and an unlimited daily flash system which reflects any unusual or extraordinary experiences encountered in the administration of credit.

The Distillers Division credit program is entirely national in operation, restricted exclusively to distillers in the strictest interpretation of that name, and will, of course, interfere in no way with the operation of any local liquor groups now existing. All applications for membership are subject to the approval of the membership committee and invitations to attend the February Distillers Division meeting in Chicago have been confined to a qualified list as passed by this committee.

Before the present business depression, the following story was considered a joke—now it might almost be a comparison. It would be hard to find a business man who is not in the same quandary as the man who operated a saw-mill in Arkansas and finally decided to hire an accountant to explain things to him. When the accountant arrived in the sketchy little town where the saw-mill operated, he was met by the owner.

"Wal, stranger," said the old timer, "it's this way. My father-in-law died a few years ago and left me the mill. My three boys run it, so it don't cost nothin' for wages. I steal all the timber, so that's free; my brother-in-law is division freight agent on the railroad, and he sneaks all the lumber out for me so that costs me nothin'. So what I want to know now is, how did I run behind six hundred dollars last year?"

Insurance digest

Inaugurated because of the credit fraternity's close contact with the insurance field and need of information about it.

Group insurance in industrial relations

In a survey by the National Industrial Conference Board of the effect the depression had on programs of industrial relations it is disclosed that of all such activities Group life insurance was the least affected. That is to say of 159 industrial companies in this survey that carried Group life insurance for their employes in 1929 only two have allowed their policies to lapse, but five additional companies took out policies after the Recovery Act, "The Eastern Underwriter" says.

"In other words, industry discontinued many industrial relations activities but retained its Group life insurance. Next in favorable experience was unemployment benefit plans. Of thirteen plans only two were discontinued during the depression and one company adopted such a plan after the Recovery Act. Among pension or retirement allowances only three succumbed to the depression. One new plan was adopted. Medical services and accident prevention activities were maintained but they were curtailed.

"Among industrial relations activities that suffered the heaviest casualties were stock purchase plans. More companies cancelled employe stock purchase plans than retained them. Home purchase plans also suffered to an above-average degree.

"Of social and recreational activities these were curtailed largely or cancelled. More than half of the dramatic and musical programs were discontinued. Picnics and outings for employes previously given by half of the reporting companies were suspended. Employe magazines were cancelled by nearly as many companies as retained them. While apprentice training showed marked immunity to the depression, more elaborate forms of educational work such as industrial courses and special training for high school and college graduates were carried on by few companies. Other activities which showed marked retrenchment were suggestion systems and plant restaurants."

Fire Prevention Week winners

The Fire Prevention Week activities of 334 cities which entered the competition have been judged and the results reported. The number of cities entered in the contest this year was greater than in any previous year. The three leading cities in the competition are in order of rank as follows: first, Atlanta, Ga; second, Fort Collins, Colo.; Pine Bluff, Ark.

The following cities have a grade of merit of 90% or over: Philadelphia; St. Louis; San Francisco; Cincinnati; Newark, N. J.; Indianapolis; Jersey City; Providence; Wichita, Kan.; Berkeley, Cal.; Lakewood, O.; Ridgewood, N. J.; Prescott, Ariz.; Colfax, Wash.

Explosion and fire coverage

Property owners need to be reminded that there are other hazards besides fire which threaten all property, irrespective of location and occupancy. The hazards of explosion, riot and civil commotion, for example, may entirely destroy a building, rendering valueless an investment which has been regarded as safe and sound.

A fire insurance policy does not cover loss by explosion unless fire ensues, and then only for damage by fire. It is difficult for even the most experienced adjuster to tell where the explosion damage left off and the fire damage began. Explosion insurance eliminates this difficulty by paying whatever par of the loss fire insurance does not cover.

The best plan is to endeavor to write explosion insurance in the same company that carries the first liability. This removes the possibility of any question of liability between different companies, the "Fireman's Fund Record" points out.

Protect 1935 Profits with Credit Interchange Reports

Insurance question box

Q. What is the difference between the pro-rata and the short rate cancellation of an insurance policy, and when are each applied?

H. I. W.

A. PRO-RATA cancellation is used when a policy already in force is cancelled and re-written for an amount not less than the original amount of the policy. It is also applied when the insuring company originates the request for cancellation.

SHORT RATE cancellation is used when the assured requests cancellation of the policy for any reason. This form is applied when the insuring company is called upon to cancel within a period shorter than the term of the policy and is intended in a measure to compensate the company for the overhead of writing and cancelling the contract.

PRO-RATA cancellation consists of figuring the exact per diem portion of the premium that has been earned up to the date of cancellation, and charging that amount.

SHORT RATE cancellation is a standard percentage charged, ranging as follows:

1 day	2%	of	the	annual	premium,	1	yr.	term
5 days	7%	"	"	"	"	"	"	"
10 "	10%	"	"	"	"	"	"	"
30 "	20%	"	"	"	"	"	"	"
90 "	40%	"	"	"	"	"	"	"
180 "	70%	"	"	"	"	"	"	"
300 "	90%	"	"	"	"	"	"	"

For three and five year terms the short rate charged is proportionately a smaller percent.

Reinsured

As of December 15, 1934, the American Insurance Co. of N. J. has reinsured 100 percent of the outstanding net liability of the Detroit National Fire Insurance Company under its fire, lightning and tornado policies; and as of midnight, December 31, 1934, it took over all of the excess of net risks under fire, lightning and tornado policies, relinquished and returned to the Detroit by its reinsurers. It is estimated that the total of the two portfolios, that is net and reinsurance, making up the gross outstanding liability, will approximate $500,000.

Further the Detroit has agreed, for a period of at least three years, to continue to transact its insurance business in cooperation with the American, and the American has agreed to reinsure 100 percent of all gross risks of the Detroit which may be assumed subsequent to December 15th, 1934.

Remodeling

Judging from the recent improvements that have been made to the buildings in our neighborhood, the publicity given to the remodeling campaign was quite successful. Whether these improvements were financed by dear old Uncle Sam or not is a question I shall not attempt to answer. It has provided work for many a man and that has been very beneficial as far as general economic conditions are concerned. The question that interests me is: Have these improvements been made wisely and more especially insurance-wisely?

This is not intended as an article on fire prevention, but the fire protective measures in most buildings are so completely disregarded that a few words on the subject appear in order. A fire out of control is a dreadful menace to life and property. The recent holocaust in Lansing, Michigan, illustrates this statement in a very clear manner. Proper construction would have done much to avert this disaster. Furthermore, very few people give any thought to fire division walls, fire doors or the protection of floor openings when constructing or remodeling a building. It is, however, the smart thing to do and the next time you build or remodel it would be wise in more ways than one for you to ask your insurance agent to provide you with the services of an insurance engineer. The insurance engineer is schooled in fire prevention and protection and will give your particular problems careful consideration. Not only will he be able to suggest ways of reducing the fire hazard but many of these suggestions, if carried out, will result in lower insurance costs.

The insurance engineer considers, first, the elimination or reduction of all causative hazards (the conditions which start fires, second, the confinement of the fire to as small an area as possible and, third, the ways and means of extinguishing the fire as rapidly as possible. Inasmuch as the second item refers mainly to structural conditions which should be considered when a building is remodeled, a further explanation is in order.

Perhaps the most common dangerous condition is unprotected vertical openings, such as elevator shafts, stairways, dumb-waiter shafts and light wells. These open draftways facilitate the rapid upward spread of fire and smoke, making escape very difficult, if not impossible. When such conditions exist, it is not unusual for a fire to spread to every floor before the fire department arrives, multiplying their task tremendously. When vertical openings are properly protected, the fire is usually held to the floor on which it originates. In general, the vertical enclosures should be of the same material as the floor, so that they will withstand the fire as long as the floor.

The protection of openings in division walls also deserves attention, but before spending good money for fire doors, make sure your walls are standard. A standard brick fire wall should be twelve inches thick at the top floor, increasing four inches every two stories down and should extend three feet above the roof. Needless to say, the fewer wall openings the better and all doorways should be protected by standard double fire doors.

If you are contemplating any building or remodeling your plans should not fail to include all possible features for the safety of your life and property.

Standard rules governing the construction, alteration or repair of buildings have been published by the National Board of Fire Underwriters, and are available without cost to anyone interested. Your insurance agent will be glad to furnish you with the necessary information.

W. C. Daniels
Engineering Department
Western Department of
Continental Insurance Co. of N. Y.

LOVE'S COLD SLEET SONG

(*Tune—Love's Old Sweet Song*)

Once in the drear, dead days beyond recall,
Sold him some prunes, six years ago last Fall;
Since in my dreams, I've pondered long and deep,
Down in the "Loss" it rests its long sweet sleep.
And when I write for just a flickering hope,
Sadly he moans and says: "I want more rope."

CHORUS:

Just a claim, ding-bust it,
Now as old as sin,
And the faltering debtor
Merely says "Oh Min."
Some glad day in glory,
Where the streets are gold,
Then I'll get my shekels
For prunes I sold—
When golden gates unfold.

—Paul A. Barkuloo

Monthly audits are urged by Rubanow

Urging monthly audits of affairs of many corporations which are frequent borrowers from banks, Joseph Rubanow, vice-president of the Manufacturers Trust Company, N. Y., and First Vice-President of the New York Credit Men's Association, told certified public accountants, credit executives and bankers what information he thought monthly audits should contain. Mr. Rubanow spoke before the committee on monthly audits of The New York State Society of Certified Public Accountants at the Block Hall Club.

Mr. Rubanow, who is also chairman of the governing committee of the New York Chapter of the National Institute of Credit, has advocated monthly audits and close relations between accountant, client and banker for years. In his remarks, Mr. Rubanow outlined in detail the data which he thought should be disclosed by the monthly audit, as follows:

1. Balance Sheet as at period under observation—exclusive or inclusive of adjustments with merchandise figure of inventory at figure required to show neither profit nor loss—or a balance sheet based on an estimated inventory assuming a gross profit based on a certain percentage of net sales.

2. Operating transactions for the month under review and a comparative set-up for the same month of the previous year or years, and for the total number of months of this year as compared for the same total of months of last year or previous years, with an estimated inventory based on the percentage of profit on net sales, or with an inventory required to show neither profit or loss.

3. A comparative condensed summary of vital operating data for period under review and for same time of last year.

"By having these comparisons", Mr. Rubanow continued, "those concerned can more easily ascertain the drift of the current financial position and liquidity. The liquidity of the receivables can be more readily analyzed, the turnover of the inventory and receivables can be quite easily observed. The overhead, cost factors, withdrawals and expenses of all kinds can be compared more carefully.

"In studying such reports from month to month the accountant and the credit man, in fact the owner of the business himself, can easily detect items of special concern, such as sudden increases in general expenses and overhead for which no tangible reason is evidenced. Many bookeepers make it a practice, knowingly or otherwise, to withhold from entering expense items of merchandise purchases towards the end of the month for the purpose of showing a forced or treated liquid condition.

"Many a situation has gone astray when, for instance, contractors' accounts were not studied from month to month, and clearly analyzed and properly presented for guidance to those interested.

"The credit executive is at present advocating monthly audits and a unit system of estimating inventory. Of course, perpetual records should in all instances be maintained. The unit system should at a minute's glance show the number of items purchased, amount of units sold, balance should either be on hand in raw form or in finished form. This unit system unquestionably should enable parties at interest to detect existing or manipulative discrepancies. Also where affiliations are concerned, clear and concise information should show the general set-up.

"Permit me to state that it is to the great credit of your profession where the accountant acts in the capacity we are advocating, namely, consultant as well as auditor, that many a slipping concern was stopped in time and liquidated to the full satisfaction of all interested parties. This is a splendid service you are rendering towards the economic stability of business even though in many instances your accomplishments remain unknown.

"We in the credit fraternity are constantly carrying on a campaign to educate our customers to the necessity of granting full permission to their accountant to supply the proper credit grantors with timely financial data. This, of course, is helpful to the accountant, whom we feel is sometimes restricted in cooperating with credit men. Splendid teamwork is naturally quite beneficial as larger amounts of credit are sought and granted. It has to be a three cornered proposition: the credit executive, the credit seeker and the accountant. The credit man no longer wishes to guess about his borrower's financial condition and present progress, and for the protection of all concerned he demands correct data to justify his continued confidence.

Mr. James E. Smith, manager of the Collection and Adjustment Department of the Rochester Association of Credit Men until February 1, 1935, is the author of the page advertisement of the Adjustment and Collection Bureaus of N.A.C.M. on page 48 of this issue. E. H. Lothian, Director of these Bureaus, recently appealed to men engaged in the Burçaus to help him prepare the sort of announcements which, in their opinion, would best present the features of this N.A.C.M. service.

Mr. Smith started his career in N.A.C.M. work with the Charlotte, N. C., Association as manager of Credit Interchange. That was in 1926. He was later made manager of the collection and adjustment service in Charlotte and finally was put in charge of the entire association work until 1930 when he went to The Service Corporation at the Rochester Association as manager of collections and adjustments.

On February 1st Mr. Smith left Rochester to accept a position with The Service Corporation at the Philadelphia Association. Mr. Smith is just starting his tenth year of connection with credit association work.

Beat the business crook!

(*Cont. from page* 7) cooperation among creditors—cooperation, first, in the exchanging of their information in order that when he begins placing an unusual number of orders, or orders in larger amounts than usual, the close contact between creditors will promptly disclose that fact.

Investigations have clearly proved beyond shadow of a doubt that the stock in trade of the fraud promoter is a financial statement, a rating, and direct references. Thus it follows that those creditors who depend upon these types of information are involving themselves in losses, in fact, are inviting them. Similarly, exchanges of information limited to small groups, whether markets or industries, or industries in a market, are hopeless as protection against the fraud promoter. Without doubt he knows all about them. This is indicated by the fact that a substantial percentage of fraud cases are conducted in those lines where the industry is known to be badly broken up by markets, groups, and sections.

There has been sufficient opportunity of observing fraud promotion schemes to say with the utmost certainty that they can be reduced to a minimum if creditors uniformly and consistently follow the four following steps:

1. Uniform use on the part of creditors of a common medium through which they exchange their ledger experience information, using this medium when first orders are received and using it at regular intervals for revision on all active accounts. This is the one source of credit information over which the debtor does not have the slightest bit of control. Regardless of his financial statement, or his handpicked references or even a good paying record on previous reports, a fraudulent debtor's plans are immediately revealed by Credit Interchange (*Continued on page* 45)

The business thermometer

(*Cont. from page* 24) department stores, the bigger chains and the main firms selling by mail-order were a hundred million dollars more in 1934 than in 1933. The bureau also estimates that total retail sales were about three quarters of a billion more in '34 than in'33. Reports on general retail sales up to the mid-month period varies considerably. Retail outlets in the greater New York area indicated a slight falling off during the second week in January while in many other sections the reports show a maintenance of a general increase of from 10 to 15% over last year's totals.

Meetings of the larger retail trade associations such as the National Retail Dry Goods Association indicated considerable optimism. The sessions of these groups were featured by many discussions of merchandising plans, indicating a rather determined effort to go after business. The slogan adopted by the Chicago Association of Credit Men,—"1935 will reward fighters," was reflected in many of these trade group meetings.

Second "Credit Field Day"

Because its initial effort in that direction was so successful last year, the New York Credit Men's Association on January 22nd held its second annual "Credit Field Day." Following luncheon, the Credit Executives broke up into individual group meetings and tackled the subject of "An Appraisal of the Present Business and Credit Situations and an Inquiry as to the Policies Calling for Adoption in 1935."

Fred Roth, of the Whitney-Roth Shoe Company of Cleveland, Ohio, President of the N. A. C. M., was the leader of the Boot and Shoe Industry Group with William H. Schmidt of Morse & Rogers, Inc., as Chairman. Another national figure was William H. Pouch, President of the Concrete Steel Company, who acted as Chairman of the Heavy Machinery, Steel, Raw Materials and Construction Industries Meeting.

Another past National President, William Fraser, of J. P. Stevens & Co., Inc., and Treasurer of the New York Association, acted as Chairman of the Textile Group Conference. Past President Ernest I. Kilcup of the Davol Rubber Company of Providence, R. I., was the leader of the Drugs, Perfume, and Allied Industries Groups with Raymond Holliday, of E. Fougera & Company, Inc., as Chairman.

National Director L. W. Lyons of The Westinghouse Electric and Manufacturing Company of East Pittsburgh, Pa., was leader of the Electrical Radio and Allied Industries Groups with E. R. Mellen, of the Weston Electrical Instrument Corporation of Newark, N. J., also a National Director, as Chairman.

Grow with Credit Interchange Reports in 1935

Boston Post

Boston dramatics

As the feature of its January meeting, the Boston Association of Credit Men was entertained by a playlet sponsored by the Boston Chapter of the National Institute of Credit, of which Miss Bessie B. Loring is President. Although definite word has not yet reached us as to the author of "All Is Not Gold That Glitters," we understand that National Director Charles A. Colton of the Boston Evening Transcript was responsible for the playlet presented at the meeting.

Following up the intensive work being done by the Boston Association in its National Institute of Credit courses and its educational program, the meeting in January was opened by the President of the Boston Association, Osbon W. Bullen, who spoke on the local chapter and described its work. Then came the playlet.

The action of the show was one that might have taken place at any creditors' meeting, showing the usual disorganization at the start, final organization, analysis of the financial statements as submitted, and also settlements on 75 per cent basis by the attorney of Reedem & Weep Company, which was finally accepted. The cast and other pertinent information about the production follows:

ALL IS NOT GOLD THAT GLITTERS

—OR—

THE GILT ON THE GILT EDGE STATEMENT MAY BE 'PHONEY

CAST OF CHARACTERS
Boston Chapter—Nat. Inst. of Credit
before the
Boston Credit Men's Association
Tuesday, Jan. 8, 1935

Subject—The financial statements of Reedem & Weep Co. for 1932, 1933 and 1934
Place—Any meeting of creditors
Time—As of July 10, 1934

WILL E. LYKITT	Charles A. Colton
HOPE N. PRAY	Bessie B. Loring
I. M. STUCK	James P. Keddy
I. HADDA LOSS	Walter E. Richards
TRY N. GETTIT	Harry W. Thompson
WELLAND STRONG	Earl O. Latham
O. WOTTA SAPP	Thomas E. Abely
E. Z. MARK	Frank S. Hughes
M. I. GOOD	J. A. Murphy
LOTTA HOPE	Lillian M. Haynes
I. B. SMART	Kenneth G. MacKay
HOODA THUNKIT	James A. Mawn
O. HOWE STUNG	Frank T. Grimm

A new angle on 77-B

An examination into the acts, conduct and property of a debtor whose affairs are being administered under section 77-B of the Bankruptcy Act may be held under section 21-A of the Bankruptcy Act after the 77-B reorganization petition has been approved by the court, according to a decision by the U. S. Circuit Court of Appeals recently.

The decision is expected to have a far reaching effect on all 77-B cases, in which there has been some doubt as to whether at 21-A examination similar to that in an ordinary bankruptcy proceeding might be conducted, and when.

An application was filed originally on behalf of one creditor for the 21-A examination, after the 77-B proceeding had been started but before it had been approved. In this was sought not only the examination of the debtor, but also of examination of members of a noteholders' protective committee. This was first granted but the order for examination was later vacated.

After the 77-B petition had been approved, an attorney on behalf of another creditor asked for a 21-A examination of the debtor, and also of the noteholders' committee. This application was also denied and the matter taken before the Circuit Court upon appeal.

The Circuit Court upon this appeal handed down a decision, which says, in part:

"If the petitioner intended to inquire into the acts and conduct or as to the property of the bankrupt, it had the right to do so by petition under section 21-A if sufficient reason were stated.

"Indeed, it was his right to inquire as to the acts and conduct and property of the debtor when in the debtor's possession as well as up to the time of the bankruptcy petition under section 77-B.

"Any examination which might assist as to the whereabouts of or aid in the collection of the assets of the debtor would be proper."

It was added that the petitioner is afforded an opportunity to show, when the 77-B plan is considered by the judge, whether any of the noteholders' committee have purchased bonds and are now attempting to obtain higher prices for them or are otherwise profiting from the plan of reorganization. If called to the court's attention, it is stated, that subdivision B of section 77-B becomes operative and "will act as a curb against such profiteering."

It is added that "nothing in the new bankruptcy act repeals the right of examination as provided for under section 21-A."

Collection—sales survey

(*Cont. from p.* 25) in this section during the new few months in collections. Fall and holiday sales reported by some as good, with others less encouraging. Most everybody, however, looks forward to the future with optimism. Their Clearing House for 1934 shows $104,-000,000 as compared with $96,000,000 for 1933. Real Estate sales were considerably higher during 1934 than 1933. Building permits for Shreveport amount to $1,300,000 for 1934 as compared with $441,000 for 1933. Postal receipts for 1934 increased $47,000 during 1934 over 1933.

Testimonial to Past Pres. Pouch

A testimonial dinner was tendered William H. Pouch, past President of the National Association of Credit Men, on January 24th at the New York Athletic Club in recognition of his fine services rendered the credit fraternity through his activity in the circles of the New York Credit Men's Association.

The committee in charge of the dinner was headed by P. M. Haight, Treasurer of the International General Electric Company, who is also President of the New York Credit Men's Association and a Vice President of the N. A. C. M. Other members of the committee included the following past Presidents of the New York Credit Men's Association:

Lee S. Buckingham, T. J. Whearty, David Golieb, William Fraser, James L. Medler, H. C. Baindridge, William F. H. Koelsch, George H. Williams and Charles E. Meek.

Saving a half-million dollar outlet

(*Cont. fr. page* 21) questions in their reverse order, the matter was disposed of by "wiping it off the books" completely. Of the second, Pihl cites facts to support his contention that it was not a loss in any sense. Of the third, his judgment has never been questioned.

He calls attention to the long and friendly relationship the two concerns had had. Over a period of years the Allis company had shipped them electric motors in the aggregate of from $50,000 to $75,000 yearly.

"On its face, $5,500 is $5,500 and ordinarily a loss is a loss," says Pihl, "but sometimes credit management confines itself too closely to the academic. Not depreciating the importance of these, it must be remembered that we made a profit on their business, during the period when their credit standing was shaky, many times greater than the amount which was finally wiped off the books. While collections were reported slow by other concerns selling them we were not in the least alarmed. We were very close to the situation at all times.

"Technically, and to all visible purposes, the account is closed. However, some of the men who were associated with them have started another company to continue in the same type of business and to this company we have shipped several thousand dollars worth of our motors."

It is Pihl's belief that his policy of working along with the original company was not responsible for the thousands of dollars worth of business they got from them in their declining days, but also for the business they are getting from the new concern. He has confidence that the new concern will become a large outlet for "LA" motors.

"So now," he asks, "how much of a loss does the $5,500 represent? Take everything into consideration."

Pihl has one rule which he always follows. That is to find out everything he can about a customer's business—what are his particular, peculiar problems? Sometimes he carries it to the customer's customers.

He calls this: "Sticking my nose into other people's affairs."

His office knows just about everything that goes on. He can tell exactly how much business the Allis company has had from every customer they ever had dealings with. He can show the volume sales of every salesman for every month compared with every other month. He knows who are users of electric motors, how many "LA" motors they are using and what other motors they have. He has motor users grouped so he can show how much business they are getting from every classification.

Pihl's ways are frequently off-standard. Sometimes, when he starts out to collect a past due account he ends up by lending out the firm's money. But he gets a lot of things done and experience shows that his ways usually take him where he wants to go.

Recently he made the statement that an efficient credit department does not require a large accounting staff to back it up. "It does its own accounting," he said.

SILVER DREADS THE GUYS I SOLD

(*Tune—Silver Threads Among the Gold*)

Owen, I am growing bold,
Silv'ry checks I'd fain behold;
Send them through the mail today,
Time is croaking fast, they say.
You, my debtor, you owe me, owe me,
Always OWEN MOORE, by gee!
Yes, my debtor, you owe me,
Dum sight more than ought to be.

—Paul A. Barkuloo

Answers to credit questions

Conducted by E. B. Moran

The National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest, are printed regularly in Credit and Financial Management. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principle of law involved.

Foreign corporations

Q. We contemplate renting space in a warehouse in New Jersey to carry stock of our merchandise for distribution at points in New Jersey as well as New York, Philadelphia, Balimore, etc., and we are somewhat questioned as to whether in doing so we might be subjected to some sort of a tax in the state of New Jersey due to the fact that we are a foreign corporation to that state and, of course, do not have permission to do business there.

It occurs to us that there are similar statutes in the State of New Jersey that compare with those of Pennsylvania and a few other states wherein there seem to be certain requisites for foreign corporations to operate. Therefore, we would very much appreciate your opinion from every point of view because we want to be sure that we are not incurring an expense that may not seem warranted.

A. It has been held that the mere storing of goods within a state by a foreign corporation is not the transaction of intra-state business which would subject the corporation to the jurisdiction of the Foreign Corporation Law of the State in which the goods are stored. But where goods are stored within a state by a foreign corporation and deliveries are made from the warehouse to customers situated within that state. or where contracts are made within the state, the corporation has been held to be doing business and to require a license.

The New Jersey Foreign Corporation Law requires all foreign corporations doing local business as distinguished from interstate business in that state to obtain a license. The penalty for not obtaining a license is that the foreign corporation may not maintain any action upon any contract made by it in the state.

Open accounts

Q. We would like some information concerning the statute of limitations in Illinois in its relationship to open accounts.

The time limit on an open account is five years in this state, but do you figure the time from the date of the invoice or from the date when it becomes due?

Does a letter written by the debtor in which he promises to pay his account as soon as he is financially able to do so extend the time limit from the date of such letter?

A. The statute of limitations begins to run at the maturity of an account, that is, from the date when the creditor could have maintained an action to collect.

A partial payment stops the running of the statute, and the period has to be computed again from the date of the last payment.

A promise by a debtor to pay an account is an admission of the debt and stops the running of the statute.

School contracts

Q. Can you advise if there is any form or book dealing with contracts as they may apply to municipalities with reference especially to School Boards with whom we do a considerable amount of business.

A. We regret that we do not know of any particular form or book dealing with contracts with School Boards. It is possible that some reader of this column may notice this and if aware of any such form or book, will be good enough to notify us.

Advertising contract

Q. Where the advertiser directs the agency to place advertising with certain publishers, and the agency is paid for such advertising by advertiser on receipt of invoices, can the advertiser be held liable for nonpayment by agency of such invoices?

A. It depends altogether upon the contract between the advertising agency and the publisher. If the agency contracts for the advertising in its own name and on its own credit, and not merely as agent for the advertiser, the publisher would have a cause of action only against the agency.

If, however, the agency placed the advertising as agent for the advertiser, then the advertiser itself would be liable to the publisher.

Discount period

Q. Where, by the terms of a contract of sale the goods are to be delivered F. O. B. the buyer's place of business, and the terms of credit are 2% 10 days, does the discount period start to run from the date of shipment of the goods or from the date the goods arrive at their destination and are tendered by the carrier to the purchaser.

A. Section 42 of the Uniform Sales Act provides that unless otherwise agreed, delivery of the goods and payment of the price are concurrent conditions.

Section 19 of the Uniform Sales Act, Rule 5 provides in effect that where the contract requires the seller to deliver the goods to a buyer at a particular place, or to pay the freight or cost of transportation to the buyer, or to a particular place, the title does not pass until the goods have been delivered to the buyer or reached the place agreed upon. So that where the goods are to be delivered F. O. B. buyer's place of business, in the absence of an agreement to the contrary, the title to the goods does not pass to the buyer until they reach the point of delivery.

Helburn Leather Co. vs. Stone, 205 Ill. App. 347.

Rock Glen Salt Co. vs. Siegel, 229 Mass. 115.

So, therefore, under the circumstances stated in the foregoing inquiry, it would appear that the ten-day discount period would not start to run until the goods had arrived at their destination.

See *Grabfelder vs. Vosburgh,* 90 N. Y. App. Div. 307; *Dow Chemical Co. vs. Detroit Chemical Works,* 208 Mich. 157; 14 A. L. R. 1200.

Beat the business crook!

(*Cont. from page* 41) reports when he begins excessive buying, either in the form of larger orders to his present creditors, or first orders to new sources.

2. Then the next step in cooperation which is essential to the prevention of fraud has to do with the handling of collections. Isn't it an assured fact that no collection unit of the National Association of Credit Men would ever come into possession of a large number of claims against one individual at about the same time without knowing with the utmost certainty that something was wrong? There would be no waiting for the filing of a petition in bankruptcy. Action would be taken which would assure the promoter receiving his just deserts long before that happened.

3. Going on to the third step in the prevention, isn't it just as obvious that if, when notices of bankruptcy were received, all of the claims against a fraud promoter found their way into the hands of the Adjustment Bureaus of the National Association of Credit Men, this promoter would be due for trouble when his bankruptcy hearings came on?

4. Once it is apparent fraud has been perpetrated, every facility of the Fraud Prevention Department of the National Association of Credit Men should be brought into action, to the end that commercial crooks are prosecuted and as many as possible are placed behind the bars where they shall remain as an example of the penalty for every sort of commercial crime.

It must be remembered that the professional fraud promotion is nothing more nor less than a purely business proposition. The purpose and aim is to make money. The promoter is not disturbed by establishing a reputation as a crook. He wants financial results, and when the financial results do not accrue then he will devote his time and effort to some other field.

Of all of the advantages and economies which accrue either directly or indirectly from intelligent cooperation, this one is definite: American business has available to it the machinery for stopping fraud losses which are commonly estimated at being not less than a half billion dollars per year. All that business need do is avail itself of those service mediums organized by it and set up to serve it by the National Association of Credit Men.

Consistent use and utilization of Credit Interchange Bureaus, Collection Departments, and Adjustment Bureaus of our organization will stop fraud losses. It cannot be done in any other way.

The demand for "credit"

(*Cont. from page* 15) of credit available this very minute is almost inexhaustible, and easy to obtain.

It has been pointed out many times by writers, that the commercial bank, whose duty it is to loan on self-liquidating projects, has no right to loan for capital account, such as buildings, machinery, office and store equipment, automobiles and trucks, etc., for in so doing it would be risking the funds of its depositors in a business enterprise in which it has no say in management, and the borrowed money would thus be frozen in non-liquidating items, repayment of which would have to come from earnings, if any, obtained from these capital goods.

In other words, if a bank loans on capital account, it becomes at once an unwilling partner in the business—subject to all the risks of the enterprise, and without any say in its management.

This is not the function of a commercial bank and should not be tolerated.

Then why are we having all this talk about lack of credit? Why is the government and the whole country talking so furiously about "increased and easier credit," if it is a fact that there is already more than ample credit available?

The fact is that we are barking up the wrong tree! It isn't "credit" that we want—it is more capital in our business that we require, to replace our losses during the 1929 panic and the years following during this depression, and we have been trying to borrow these capital funds from our banks, which, quite properly, have promptly turned us down, because loans if made to us, would not be self-liquidating, and would have the effect of bringing the bank in as a partner in our business.

This is what the banker means when he says that there is a scarcity of sound borrowers.

Much time and many a heartache would be saved if, when we require money, we would separate our requirements carefully into those necessary to carry self-liquidating items and those which would have to be used for some form of capital investment.

We could then go to our banker with a clean self-liquidating proposition and undoubtedly get the accommodation we require, as there is lots and lots of money available for such loans.

Now, as regards the money you may need for capital expenditures in your business, there are only one or two ways to get it. By all means, the best way is to take a partner in with you, who is willing to invest the necessary amount—basing his interest in the business on the proportion his investment bears to the net worth of the business.

This is especially advisable for a small business. If the business is fairly large, and has a good earning record in the past, an issue of common stock, preferred stock or bonds would probably do the trick—common stock financing being the best of all, if it can be sold, as the stockholders would all be on an equal basis—subject to the risks of the business and enjoying the profits.

In any event, analyze your financial needs—go to your bank for loans on self-liquidating items, and take other means to get such funds as you must use for capital account.

Fire loss in '34 lower

Fire losses in the United States in December amounted to $23,895,879 compared with $27,626,439 a year ago, a drop of 13.5%, according to figures submitted to the National Board of Fire Underwriters by member companies. In December, 1932, the losses amounted to $39,190,506.

For the twelve months of 1934 the losses totaled $275,652,060, the lowest total to be reported since 1915 and comparing favorably with the annual losses during the decade from 1905-1915. In 1933 the losses amounted to $316,897,733 and in 1932 they totaled $442,143,311. In 1906, the year of the San Francisco conflagration, fire losses exceeded $500,000,000 for the first time. Other years in which the losses were in excess of the half billion figure were 1921, 1922, 1923, 1924, 1925, 1926, 1927 and 1930. The total for 1934 shows to what a tremendous extent fire losses have fallen off since 1930. Whereas three years ago the drop in premium income coupled with high losses resulted in heavy underwriting losses for fire companies, in 1933 and 1934 the companies were able to report excellent underwriting gains.

Inflation

(*Cont. from p.* 13) of which it wields a strong, if shadowy, influence on the bank's affairs. Through laws passed and threats of other laws to come the Administration has brought the bankers to heel. Things have nearly reached the pass where the banks have to buy government issues whether they like them or not. The extraordinary easy money policy imposes still more pressure on the banks to buy government issues. The government has entered the lending field itself through the direct loan department of the R. F. C. and, to a lesser extent, the industrial advance division of the Federal Reserve. All in all, the government holds the banks completely under its sway.

So much for the pains which the Administration has taken to provide for a market for Treasury securities. Yet another method lies open to it of raising money if anything should happen which would impair the receptivity of the banks for government issues. The so-called inflation act of 1933 gives the government power to force the Federal Reserve System to buy up to $3,000,000,000 of securities directly from the Treasury. If this operation was a failure, the government was empowered by the same inflation act to issue greenbacks up to $3,000,000,000. Authority was also given to fix weights of gold and silver dollars and to provide for unlimited coinage of gold and silver at the ratio so fixed.

The objection may be raised at this juncture that the inflation act fell in the category of permissive legislation and that the mere existence on the statute books of the power to issue greenbacks and to sell securities directly to the Federal Reserve was no reliable sign that the Treasury would ever avail itself of this authority. Experience would counsel, though, that the recognition so given to the inflationary stirrings in Congress was a virtual guaranty that these powers would not be allowed to rust from disuse.

Encouraged by recognition, the inflationists have brought forward the bonus bill, which would call for an issue of greenbacks. One can point, too, to the effort made in the House on January 7 by Representative Goldsborough, of Maryland, who would establish a central banking system capitalized at $4,000,000,000 and confer upon the Secretary of the Treasury authority to issue up to ten times that amount in United States notes (greenbacks) for use in paying off the obligations of the government.

"There would be," said Mr. Goldsborough, "no new bond issue if this bill passed, because they would not have any more government bonds. This bank would pay off the government debt. At the present time about $6,000,000,000 of the national debt is callable and could be paid off immediately."

It would be unthinkable, if it were not true, that a Congressman would be urging the United States to fall back on the printing presses, while the experience of Germany with those machines twelve years ago is so fresh in mind. A salient virtue of the gold standard is that it sets limits to the note issue and thus constitutes a guaranty against abuses. With Germany, however, there was no great choice of alternatives. Stripped of much of its territory by the treaty, saddled with an exorbitant reparation burden, its plant in bad repair and workers disorganized, and suffering from internal discord, Germany, in its extremity, began issuing printing press money. Before long ordinary commercial transactions required sums of money to consummate so large as to remind one of the figures used in giving the distance to the farthest star.

Beyond doubt the Administration gave more encouragement to inflationists of every shade and creed when it deliberately severed the cord linking the dollar to gold in April, 1933, than they had ever had before in this country. Inspired by this victory, Congressional inflationary elements rushed on to fresh triumphs in the form of the inflation act of 1933, the silver subsidy arrangement of December, 1933, the gold reserve act of January, 1934, and the silver purchase act of June, 1934. And they are not yet done. It is doubtful whether they can be successfully resisted unless their whole program is cast overboard and adherence publicly expressed for the monetary policies which history and observation of current phenomena show are the only ones worthy of allegiance.

"Gerald, dear," said Gerald's aunt, "aren't you sometimes afraid you'll lose control of the car?"

"Constantly," replied Gerald, "I'm two installments behind already."

Grow with Credit Interchange Reports in 1935

Court decisions

CONSTITUTIONAL LAW—Impairment of contract—obligations, exemptions of insurance money—emergency legislation.

APPEAL by plaintiff from a judgment of the Supreme Court of the State of Arkansas affirming a judgment of the Circuit Court for Pulaski County, Second Division, sustaining a claimed exemption of proceeds of a policy of life insurance from demands of creditors of the beneficiary.

1. A statutory exemption, without limitation as to amount or restriction with respect to particular circumstances or relations, of all moneys paid or payable to any resident of the state under any life, sick, accident, or disability insurance policy from liability for the payment of the debts of the recipient, is, as applied in the case of debts owing before the exemption was created, an unconsitutional impairment of contract obligations.

2. A statute undertaking to exempt from the claims of creditors of the recipient the avails of life, sick, accident, or disability insurance cannot be sustained, as against the objection that it impairs contract obligations to existing creditors, as emergency legislation, where, although purporting to be such, it contains no limitation as to time, amount, circumstances, or need. (W. B. WORTHERN COMPANY, Agent, et al., Appts., v. MRS. W. D. THOMAS. United States Supreme Court—May 28, 1934.) (292 U. S. 426, 78 L. ed. 1344, 54 S. Ct. 816.)

BANKS—insolvency—preference to purchaser of draft.

ERROR to the Court of Appeals for Lucas County to review a judgment affirming a judgment of the Court of Common Pleas in favor of plaintiff in an action brought to establish a preferred claim upon a draft and for interest.

1. The purchase of a draft by a depositor in a bank, by issuing to such bank a check against such depositor's own account in such bank, is not a presentation of such check to such bank for "collection and payment" within the meaning of Sec. 713, General Code, and such draft does not constitute a preferred claim upon the assets of such failed bank. Fulton v. B. R. Baker-Toledo Co., 125 Ohio St. 518, 182 N. E. 513, overruled.

2. Sections 711, 712, 713, and 714, General Code, are in pari materia, and must be construed together. They are in derogation of the common law, and must be strictly construed.

3. When the assets of a bank are taken over for liquidation by the superintendent of banks, under the General Code, of Ohio, one having a preferred claim against such failed bank is not entitled to have interest on the principal amount of such claim paid in priority to payment to general creditors. (I. J. FULTON, State Superintendent of Banks, Plff. in Err., v. B. R. BAKER-TOLEDO COMPANY, Ohio Supreme Court —April 11, 1934. (128 Ohio St. 226, 190 N. E. 459.)

CHATTEL MORTGAGE—discharge of mortgagor by agreement between mortgagee and purchaser of property.
PRINCIPAL AND SURETY—discharge of surety by change of contract—discharge of surety by release of security.

APPEAL by plaintiff from a decree of the Circuit Court of Baltimore City (Stump, J.) in favor of defendant in a suit to hold him liable on a deficiency growing out of the foreclosure of a chattel mortgage.

1. An agreement by the chattel mortgagee of a stock in trade and fixtures, without obtaining the consent of the mortgagor, that a purchaser of the property who has assumed the mortgage may dispose of certain fixtures and substitute others, operates to discharge the mortgagor from personal liability for the mortgage debt. (JORDON PRODIS, Appt., v. PETE CONSTANTINIDES.) Maryland Court of Appeals—May 3, 1934. (Md., 172 A. 286.)

2. Any dealing with one who is the principal debtor whereby the contract is materially varied operates to discharge the surety.

3. A surety for a debt is discharged to the extent of the value of security released by the creditor without his consent.

FRAUDULENT CONVEYANCES—trust for settlor. REMAINDERS—under trust instrument—time of vesting—Remaindermen as taking under deed of trust or through estate of settlor. FRAUDULENT CONVEYANCES—Conveyance in trust for settlor for life with remainder to his appointees.

APPEALS by defendants from a decree of the Circuit Court No. 2 of Baltimore City (O'Dunne, J.) in favor of plaintiff in an action brought to have a New York judgment satisfied out of the corpus of a trust fund created by the judgment debtor, Defendant Wells.

1. The corpus of a trust, created without actual fraudulent intent to pay the net income to the settlor for life and at her death to pay over the principal of the trust fund as the settlor should by will appoint and, in default of appointment, to the then living lawful issue of the settlor, or in default of issue, to the settlor's next of kin, cannot be subjected to the payment of the settlor's debts subsequently contracted.

2. The immediate vesting of the ultimate remainder upon the execution of a deed of trust is not affected by the fact that such estate may be defeated by the exercise of appointment by will reserved to the settlor, or by the birth of issue of the settlor who shall survive her.

3. Those to whom the corpus is distributable under the terms of a deed of trust to pay the income to the settlor for life and at her death to pay over the principal of the trust fund as the settlor should by will appoint, and in default of appointment to the settlor's then living lawful issue or in default of issue to the settlor's next of kin, take under the deed of trust, and not through the estate of the settlor.

4. A statute declaring all deeds of gift of goods and chattels in trust to the use of the person or persons making the deed of gift to be void does not apply to a trust to pay the net income to the settlor for life and at her death to pay over the principal of the trust fund as she should by will appoint, and in default of appointment to the settlor's then living lawful issue or in default of issue to the settlor's next of kin. (MERCANTILE TRUST SOMPANY OF BALTIMORE, trustee, etc., Appt., v. Bergdorf & Goodman Company. Helen Bennett Wells, Appt., v. SAME. Maryland Court of Appeals, June 12, 1934.) (Md., 173 A. 31.)

ESTOPPEL—to set up unconstitutionality of statute as defense. STATUES—effect of total invalidity of.
ESTOPPEL—creation of right by.

APPEAL by defendants from a decree of the Chancery Court for Henry County (Rye, Ch.) overruling demurrers to a bill filed to recover certain funds alleged to have been collected by them pursuant to an act requiring the collection of a tax on gasolene sold in the county.

1. An oil company which under compulsion of the statute acted as agent for the county in collecting from purchasers a tax on gasolene sold by it is not estopped to assert the subsequently adjudicated invalidity of the tax statute as a defense to a suit by the county to recover from it money so collected.

2. An unconstitutional statute imposes no obligations and confers no rights, but is inoperative as though it had never been passed.

3. While estoppel may be urged for the protection of a right, it can never create a right. (HENRY COUNTY et al., v. STANDARD OIL COMPANY et al., Appts. Tennessee Supreme Court, May 31, 1934. (Tenn., 71 S. W. (2d), 683.)

ASSIGNMENT—by depositor in insolvent bank. EQUITY—Court's power to transfer action to equity. APPEAL—transfer to equity of action at law. APPEAL—estoppel by requesting ruling.

APPEAL by defendant Pieter from a decree of the Superior Court of Grand Rapids, in Chancery (Taylor, J.) in favor of plaintiff in an action brought to recover an amount on deposit in suspended bank in the name of defendant alleged to be due plaintiff.

1. An assignment of a stated amount of the moneys on deposit in the name of the assignor in a suspended bank entitles the assignee to receive, from dividends otherwise payable to the assignor, the sum named, and not merely such proportion of the dividends as the amount assigned bore to the assignor's deposit.

2. The court may not of its own motion transfer to the equity side an action at law by the assignee of a portion of a deposit in a suspended bank against the bank and its assignor, where the propriety of maintaining the action on the law side is not challenged by the bank.

3. A party upon whose motion the jury has been dismissed is not prejudiced by the error of the court in transferring the action from the law to the equity side.

4. A party contending in the trial court that an instrument is not ambiguous, and that its construction and meaning are matters of law for determination by the court, cannot complain on appeal of the trial court's holding to that effect. (CLARENCE GAUTHIER v. WILLIAM L. PIETER, Impleaded, etc., Appt.) Michigan Supreme Court—June 4, 1934. (Mich., 225, N. W. 385.)